

STRENGTHENING THE SAFETY NET

HEARING BEFORE THE COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES ONE HUNDRED TWELFTH CONGRESS SECOND SESSION

HEARING HELD IN WASHINGTON, DC, APRIL 17, 2012

Serial No. 112-24

Printed for the use of the Committee on the Budget



Available on the Internet:
www.gpo.gov/fdsys/browse/committee.action?chamber=house&committee=budget

U.S. GOVERNMENT PRINTING OFFICE
73-801 PDF WASHINGTON : 2012

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

COMMITTEE ON THE BUDGET

PAUL RYAN, Wisconsin, *Chairman*

SCOTT GARRETT, New Jersey	CHRIS VAN HOLLEN, Maryland,
MICHAEL K. SIMPSON, Idaho	<i>Ranking Minority Member</i>
JOHN CAMPBELL, California	ALLYSON Y. SCHWARTZ, Pennsylvania
KEN CALVERT, California	MARCY KAPTUR, Ohio
W. TODD AKIN, Missouri	LLOYD DOGGETT, Texas
TOM COLE, Oklahoma	EARL BLUMENAUER, Oregon
TOM PRICE, Georgia	BETTY McCOLLUM, Minnesota
TOM McCLINTOCK, California	JOHN A. YARMUTH, Kentucky
JASON CHAFFETZ, Utah	BILL PASCRELL, JR., New Jersey
MARLIN A. STUTZMAN, Indiana	MICHAEL M. HONDA, California
JAMES LANKFORD, Oklahoma	TIM RYAN, Ohio
DIANE BLACK, Tennessee	DEBBIE WASSERMAN SCHULTZ, Florida
REID J. RIBBLE, Wisconsin	GWEN MOORE, Wisconsin
BILL FLORES, Texas	KATHY CASTOR, Florida
MICK MULVANEY, South Carolina	HEATH SHULER, North Carolina
TIM HUELSKAMP, Kansas	KAREN BASS, California
TODD C. YOUNG, Indiana	SUZANNE BONAMICI, Oregon
JUSTIN AMASH, Michigan	
TODD ROKITA, Indiana	
FRANK C. GUINTA, New Hampshire	
ROB WOODALL, Georgia	

PROFESSIONAL STAFF

AUSTIN SMYTHE, *Staff Director*

THOMAS S. KAHN, *Minority Staff Director*

CONTENTS

Hearing held in Washington, DC, April 17, 2012	Page 1
Hon. Paul Ryan, Chairman, Committee on the Budget	1
Prepared statement of	3
Hon. Chris Van Hollen, ranking minority member, Committee on the Budget	4
Prepared statement of	6
Submission for the record: Saint Camilius Food Pantry Report	93
Casey B. Mulligan, professor of economics, University of Chicago	7
Prepared statement of	9
Ron Haskins, co-director, Center on Children and Families, Brookings Institution; senior consultant, Annie E. Casey Foundation	16
Prepared statement of	19
Robert Rector, senior research fellow, family & welfare studies, the Herit- age Foundation	26
Prepared statement of	31
Robert Greenstein, president, Center on Budget and Policy Priorities	36
Prepared statement of	41

STRENGTHENING THE SAFETY NET

TUESDAY, APRIL 17, 2012

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:00 a.m., in room 210, Cannon House Office Building, Hon. Paul Ryan, [Chairman of the Committee] presiding.

Present: Representatives Ryan, Garrett, Cole, McClintock, Stutzman, Lankford, Black, Ribble, Flores, Mulvaney, Huelskamp, Young, Rokita, Van Hollen, Kaptur, Blumenauer, McCollum, Ryan of Ohio, Moore, Castor, Bass, Bonamici.

Chairman RYAN. Before I start with my opening statement, I want to outline our plan for a hearing next week. As part of the House Budget, we propose to replace the sequester with reforms to ensure that we get the deficit reduction we all want without the huge reductions on top of reductions that the Obama administration is already planning in the defense program.

So, pursuant to the budget, we are going to consider reconciliation and other legislation to fix this sequester as we discussed in our markup. As a result, I think we need to learn more about the sequester, how OMB would implement the sequester, and what the impact would be, and to learn about the specific proposal for replacing the sequester.

To that end, we plan on holding a hearing on the Budget Control Act on April 25th. For the past couple of weeks, we tried to get OMB to agree to testify. They have refused so far. We sent a letter to OMB yesterday to the acting director, asking that they testify. My hope is that we can have a hearing next week. It's critical we fix this sequester and secure the deficit reduction called for in the Budget Control Act, and I just want to have members know this to mark their calendars for the hearing we're planning on having. You want to speak on this?

Mr. VAN HOLLEN. Just very briefly, Mr. Chairman. I just want to make the point, and I think the CBO has been clear on this, as has the White House, they have a plan for replacing the sequester. They have a budget that they presented to the United States Congress that would replace the \$1.2 trillion in deficit reduction mandated by the sequester with a balanced approach. So, they have been very clear and on the record through their budget as to how they would avoid the sequester in a way that maintains deficit reductions.

Chairman RYAN. Right, but the question is if no plan is passed to replace it, then how is it to be implemented? That's what we want to get at.

Before we start, let me note today that millions of workers and businesses are filing their taxes today. I view the core mission of this committee as ensuring that every dollar the government takes from hard-working citizens is spent as efficiently and as effectively as possible and only on programs where the federal government has a critical role to play.

To that end, the focus of today's hearing is on reforming the federal government's role in public assistance programs, so that taxpayer dollars are carefully targeted to those in need, the disabled, the sick, and those who, through no fault of their own, have fallen on hard times. As we seek to end wasteful practices, promote independence, and protect the safety net from the threat of a debt crisis, we should learn the extraordinary successes of the 1996 Welfare Reform Act. There is a lot to be learned there.

The hearing will come to order. On the eve of the 1996 Welfare Reform, democratic senator Frank Lautenberg voiced his concern that the bill would transform America into a third world nation, leaving quote, "children hungry and homeless, begging for money, begging for food, and even at eight and nine years old engaging in prostitution," closed quote.

Senator Lautenberg was not alone in making these kinds of apocalyptic predictions about this historic law. But, what happened in reality? Transforming welfare, among other things, instituting meaningful work requirements, setting time limits, and empowering states to design more effective programs, just like we did in Wisconsin, cut case loads in half against a backdrop of falling poverty rates.

There was the single greatest reduction in poverty among children since the 1960s. Poverty among children in female-headed households fell from 55.4 percent in 1991 to 39.3 percent in 2001. The Congressional Research Service said this past December that quote, "Since 1996 welfare reform, progress appears to have been largely sustained in both reducing welfare dependency and poverty among children and female-headed families in spite of the recent recession." Today, over 15 years later, we are hearing the same kinds of hysterical predictions from critics of our budget. Last week, President Obama accused republicans of being "social Darwinists." I did not think that Senator Lautenberg's outlandish accusation could be topped, but I think it has been now.

Let's put aside the outrageous rhetoric. Let's look at the facts. Let's look at what works and what does not work. Let's look at where we are headed. Let us look at what a debt crisis would do to us. Let's look at what the House Budget actually does. This budget treats all Americans with respect and dignity. It recognizes that the federal government's attempts to help can often do more harm than good. One honest observer of government could not agree, disagree with that.

It is in our national interest to create a class of people permanently dependent on the government? No, it is not. More to the point, is it in the best interest of these individuals to become dependent upon government? No. We must also ask what happens to

those who are most in need of government assistance when the government can no longer pay its bills if we have a debt crisis? We face the most predictable debt crisis in history, and if this crisis hits those who rely on the safety net the most will be hurt the first and the worst. Just turn on the TV. Look what is going on across the Atlantic.

In contrast to the gradual reforms that our budget faces in, reforms that protect those most in need of help, a debt crisis would force sharp, immediate cuts in spending, hurting those who cannot help themselves. Meanwhile, sharp, immediate tax increases would stunt job growth and opportunity for those who can. We saw the success of welfare reform. Our budget follows the tradition of this success. Opponents of reform were wrong in 1996, as we believe they are today. As we act to prevent a debt crisis that truly would devastate the poor, they are even more wrong.

I want to thank all the witnesses for coming today. I appreciate you taking time out of your busy schedule to provide us with your testimony. We have people who have been involved in this issue for years and decades, who have done great, scholarly work, and I welcome the insights that you are going to bring to this committee. And, with that, I would like to turn to the ranking member, Mr. Van Hollen.

[The prepared statement of Paul Ryan follows:]

PREPARED STATEMENT OF HON. PAUL RYAN, CHAIRMAN, COMMITTEE ON THE BUDGET

Before we start, I just want to note that today, millions of workers and businesses will file their taxes.

I view the core mission of this committee as ensuring that every dollar the government takes from a hardworking citizen is spent as efficiently and effectively as possible, and only on programs where the federal government has a critical role to play.

To that end, the focus of today's hearing is on reforming the federal government's role in public-assistance programs, so that taxpayer dollars are carefully targeted to those in need—the disabled, the sick, and those who, through no fault of their own, have fallen on hard times.

As we seek to end wasteful practices, promote independence, and protect the safety net from the threat of a debt crisis, we should learn from the extraordinary success of the 1996 Welfare Reform Act.

On the eve of the 1996 welfare reform, Democratic senator Frank Lautenberg voiced his concern that the bill would transform America into a Third World nation, leaving “children hungry and homeless * * * begging for money, begging for food, and even at eight and nine years old engaging in prostitution.”

Senator Lautenberg was not alone in making these kinds of apocalyptic predictions about that historic law. But what happened in reality?

Transforming welfare—by, among other things, instituting meaningful work requirements, setting time limits, and empowering states to design more effective programs—cut caseloads in half against a backdrop of falling poverty rates.

There was the single greatest reduction in poverty among children since the 1960s. Poverty among children in female-headed households fell from 55.4 percent in 1991, to 39.3 percent by 2001.

The Congressional Research Service said this past December that, “Since 1996 welfare reform, progress appears to have been largely sustained in both reducing welfare dependency and poverty among children in female-headed families, in spite of the recent recession.”

Today, over 15 years later, we are hearing the same kinds of hysterical predictions from critics of our budget.

Last week, President Obama accused Republicans of being ‘social Darwinists.’

I didn't think that Senator Lautenberg's outlandish accusation could be topped, but I think it has been.

Let's put aside the outrageous rhetoric. Let's look at what the House-passed budget actually does.

This budget treats all Americans with respect and dignity. It recognizes that the federal government's attempts to help can often do more harm than good. What honest observer of government could disagree?

Is it in our national interest to create a class of people permanently dependent on the government? More to the point, is it in the best interest of these individuals to become dependent on government?

We must also ask: What happens to those who are most in need of government assistance when the government can no longer pay its bills?

We face the most predictable debt crisis in history—and if this crisis hits, those who rely on the safety net the most will be hurt the first and the worst.

In contrast to the gradual reforms our budget phases in—reforms that protect those most in need of help—a debt crisis would force sharp, immediate cuts in spending, hurting those who cannot help themselves. Meanwhile, sharp, immediate increases in taxes would stunt job growth and opportunity for those who can.

We saw the success of welfare reform. The Republican budget follows in the tradition of this success.

Opponents of reform were wrong in 1996, and today—as we act to prevent a debt crisis that truly would devastate the poor—they are even more wrong.

I want to thank all of witnesses for coming today. I appreciate all of you taking time out of your busy schedules to provide us with your testimony.

Mr. VAN HOLLEN. Thank you, Mr. Chairman. I join the chairman in welcoming all of our witnesses today to a very important hearing. I think there is universal agreement that we should spend taxpayer money wisely. I also think there is agreement that we should learn from a successful reforms. I think, as we will find out in this hearing, some of the successes that apply to the welfare reform provision simply do not apply in this case, and we will also hear some of the consequences of certain aspects of that reform.

Mr. Chairman, there is a difference between reform and just taking a hatchet to important social safety net programs. We obviously have deep differences of opinion on this issue. I happen to think that the president's characterization of this budget is correct, and I think it is Orwellian to present a budget that tears a huge hole in the safety net as one that is, in fact, designed to strengthen support for vulnerable Americans. This week brings a very strong contrast to the different approaches that would be taken in this body and in the senate.

We saw in the senate yesterday a vote on the Buffet Rule, asking millionaires to pay more to help reduce our deficit. Meanwhile, here in the House, we are having a vote this week on a bill that would add billions of dollars to the deficit by providing tax breaks to hedge fund owners, to Washington law firms, all under the guise of a small business bill. And, here in the Budget Committee, we are talking about quote; “strengthening the social safety net” when in fact this budget tears big holes in it.

Let's put this hearing in context and why we are here today, and it is because the budget that has been presented by our Republican colleagues takes a lopsided approach. It ignores the advice of bipartisan commissions that say that any credible, responsible approach to reducing the deficit combines cuts, and we need to make cuts and difficult decisions, but it combines those cuts with an end to special interest tax loopholes and asking the folks at the very top to pay a little bit more to help reduce our deficit. And because it refuses to ask wealthier Americans to pay one penny toward deficit reduction, because it takes that whole revenue stream out of the equation, it means that their budget hits everyone and everything else harder. That is simple math.

We have talked in this committee about the impact the Republican budget would have on the Medicare guarantee and ending the Medicare guarantee. We have talked about how it would cut very important investments necessary to keep our economy strong, in our infrastructure, in transportation, education. Today, we will focus on its impact in the social safety net.

I have to say that the storyline, at least part of the storyline that accompanies this Republican budget is, in my view, a cynical one. It is one designed to tell Americans that these social safety nets are not necessary because people choose these safety nets over getting a job, that people who are out of work choose to be out of work, that people who need the support of food and nutrition and health programs choose to be in that position, and that by cutting these essential supports, by making people who are on the economic edge even more desperate, that we will give them renewed willpower to pull themselves up by their bootstraps, that, in fact, we are doing a favor to the people who will be most harmed.

As we consider how we can strengthen the social safety net, we should be clear about what our goals are and how we define success. Is our goal, in fact, to strengthen that social safety net? If that is the goal, Mr. Chairman, we join you in an effort to find essential reforms. But, if our goal simply is to take a hatchet to part of the budget in order to meet certain targets while refusing to take a balanced approach, we cannot join in that effort.

What this does is cut Medicaid by \$810 billion. By the year 2020, the Medicaid program would be reduced by a full third. By 2050, and these numbers are according to the Congressional Budget Office, it would cut Medicaid by a whopping 75 percent. It does this by converting Medicaid into a block grant program that provides inadequate funding that fails to keep pace with the need. It does this under the name of flexibility, refusing to recognize that Medicaid already has a lot of flexibility. More than 30 states already operate under the Medicaid waiver.

CBO has concluded that this will mean states either have to pay a lot more, which means increased taxes on their citizens, or cut back significantly. An Urban Institute study recently explained what the consequences are.

We will have a conversation about to what extent the work incentives under welfare reform, actually apply to a program like Medicaid. I think we will find that the comparison stops very early on.

We will also have a conversation about SNAP, the Food Assistance And Nutrition Program. It was decided back during welfare reform not to block grant that because it did provide an essential, absolute safety net for people in need and provided an economic stabilizer.

So, Mr. Chairman, again, I think that people are willing to explore ways that really reform the process for the better. What we are not willing to do is simply blindly cut programs that are absolutely necessary to provide help to people in need, including lots of seniors, simply to meet one half a budget equation that refuses to look at the revenue half of that equation, while cutting provides additional tax breaks to people who are the best off in this country. We do not think that is shared responsibility. We look forward to

working with you on a budget plan, a deficit reduction plan that truly meets that goal. Thank you.

[The prepared statement of Chris Van Hollen follows:]

PREPARED STATEMENT OF HON. CHRIS VAN HOLLEN, RANKING MEMBER,
COMMITTEE ON THE BUDGET

While today's hearing is titled "Strengthening the Safety Net," it is mostly an effort to sugarcoat a Republican budget that shreds the social safety net while providing gold-plated tax breaks to the wealthiest Americans. It's truly Orwellian to present a budget that tears apart the social safety net as one designed to strengthen support for vulnerable Americans.

This week presents a very clear contrast in the priorities between Republicans and the Democrats in Congress. Yesterday, the Senate voted on the Buffett Rule to make sure that millionaires take greater responsibility for reducing the deficit. All but one Republican voted no and all but one Democrat voted yes.

Meanwhile, this week in the House, we're going to be doing two things. We're taking up legislation that will add billions to the deficit by providing big tax breaks to hedge fund owners, big Washington law firms, and others under the guise of a small business bill. And here in the Budget Committee, we are holding a hearing attempting to put a compassionate face on the shredding of the social safety net.

Let's put this hearing in context. The Republican budget takes a lopsided approach to addressing our deficit. Rather than taking the balanced approach that has been recommended by bipartisan groups—an approach that requires deficit reduction through a combination of spending cuts and additional revenue—the Republican budget refuses to eliminate one single tax break for the purpose of deficit reduction. It refuses to ask the wealthiest Americans to pay one penny more for the purpose of deficit reduction. Simple math tells you that, because that revenue is taken off the table, the Republican budget hits everyone and everything else much harder.

We've talked about the impact of the Republican budget in terms of ending the Medicare guarantee. We've talked about the fact that it would slash important investments necessary to keep our economy strong, like investments in education, infrastructure, science, and research. And today we will focus on what it does to the social safety net.

The storyline that accompanies the Republican budget is a particularly cynical one. It is one designed to tell Americans that these social safety nets are not necessary because people choose those safety nets over getting a job; that most people who are out of work choose to be out of work; that most people who need the support of food and nutrition programs choose to be in that position; and that by cutting these essential supports—by making people on the economic edge even more desperate—they will be giving people the willpower to pull themselves up by their bootstraps; that they are in fact doing a favor to the people who will be most harmed.

As we consider how we can "strengthen the safety net," we should be clear about what our goals are and how we define success. Are we focused first on helping vulnerable Americans and what success means for their lives? Or is our first goal to cut deficits by dismantling programs that preserve the economic well-being of the vulnerable while expanding tax breaks to the wealthiest people and corporations in America? The answers to these questions lead to very different approaches.

If one starts with the goal of simply cutting these programs, then the Republican budget is one way to get there. It attempts to balance the federal budget on the backs of the poor, by gutting federal spending on safety net programs and replacing it with the failed philosophy of "trickle-down" economics—arguing that somehow, if we shower the richest among us with hundreds of billions of dollars more in tax breaks, they will pass on the benefits to those at the lowest economic rungs. The Republican budget cuts \$810 billion from Medicaid. It will be cut by 30 percent by 2022, and by an astounding 75 percent by the year 2050.

The Republican budget converts Medicaid into a block grant to states and provides inadequate funding that fails to keep pace with need. It speaks vaguely of providing more flexibility to states, missing the point that states already have significant flexibility. For example, 30 states operate Medicaid under one or more waivers of federal rules.

CBO concluded that the Republican budget would mean that states will need to increase their spending on these health programs, cut back services, or both. Cutbacks could involve reduced eligibility, coverage of fewer services, lower payments to providers, or increased cost-sharing by beneficiaries—all of which would reduce

access to care. An Urban Institute study of the same Medicaid plan in last year's Republican budget found that 14 million to 27 million people could lose Medicaid coverage. Millions of poor people losing health care coverage—in a program where half of all beneficiaries are children and another quarter are either senior citizens or people with significant disabilities that make them unable to work.

I also note that concerns about work incentives that drove welfare reform in 1996 have no relevance to Medicaid. First, it is a program that provides health care coverage to those left behind by the private insurance market. Second, two-thirds, or 66 percent, of Medicaid spending is for senior citizens and people too disabled to work, while another 20 percent is for children. Medicaid costs reflect underlying health sector trends and population aging, as more people need help paying for long-term care. Spending also reflects the economy—more people rely on Medicaid when jobs are scarce.

As for SNAP, it already has strong work incentives built in. Moreover, in 1996, rejecting proposals to block-grant SNAP (known then as food stamps) was critical to building bipartisan support for welfare reform. SNAP continues to serve the most critical of roles in society—providing food security for families who have fallen on hard times. It is a major stabilizer that allows the federal government to respond quickly to changes in economic conditions. SNAP spending will decline as the economy recovers. Attempting to force further cuts will leave millions of children without adequate diets.

The idea that the approach in the Republican budget strengthens or repairs the social safety net is the kind of doublespeak that aggravates Americans. The plain meaning of “strengthen” is to make something stronger and more vigorous. The Republican budget does the direct opposite: it shreds that safety net; it weakens it. To make matters worse, it does so while expanding tax breaks for millionaires and corporations that have done exceedingly well not only by their own efforts, but because of their workers, customers, and fellow citizens.

Chairman RYAN. Thank you. Gentlemen, obviously our goal is to bring spending that's sustainable and to include reforms that actually work to serve the purpose of these programs, which we think we have missed on that by virtue of just the results and the fact that poverty is at an all-time high.

With that, we will start with Dr. Casey Mulligan, professor of economics at the University of Chicago. Welcome, and I think it is your first time coming to the Hill. Then we will go with Ron Haskins, co-director of the Center on Children and Families at the Brookings Institution. Ron is no stranger to this body, nor is Dr. Robert Rector, senior research fellow at the Heritage Foundation, and, Bob, we kept your seat warm. I think that is where you always sit. It is good to see you again. Bob Greenstein, president of the Center on Budget and Policy Priorities. Why do we not go with Casey, then Ron, then Robert, and then Bob. Dr. Mulligan.

STATEMENTS OF CASEY MULLIGAN, PROFESSOR OF ECONOMICS, UNIVERSITY OF CHICAGO; RON HASKINS, CO-DIRECTOR, CENTER ON CHILDREN AND FAMILIES, BROOKINGS INSTITUTION; ROBERT RECTOR, SENIOR RESEARCH FELLOW, HERITAGE FOUNDATION; ROBERT GREENSTEIN, PRESIDENT, CENTER ON BUDGET AND POLICY PRIORITIES

STATEMENT OF CASEY MULLIGAN

Mr. MULLIGAN. Chairman Ryan, Ranking Member Van Hollen, and members of the committee, thank you for the opportunity and honor to discuss with you today. Our new safety net program rules over the past couple of years have changed the reward to work. A multitude of public policies effect that reward and thereby effect who is employed.

A basic economic principle is that the monetary reward to working has important effects on how many people are employed and

how much they work. By definition, the monetary reward to working is the difference between the resources a person has available to use or save if she works and what she has available when she does not work.

The effect of taxes and subsidies on the reward to working can be summarized as a marginal tax rate, and by that I mean the difference between taxes paid and that of subsidies received when working, and that taxes paid when not working, sometimes expressed as a fraction of the amount produced when working.

Now, people without jobs or otherwise with low incomes sometimes receive benefits from social safety net programs. The benefits are rarely called taxes by layman, but economists understand the benefits to have many of the characteristics of marginal tax rates because a program beneficiary loses some or all of her benefits as a consequence of working. The more income that a person receives when not working, the less is the reward to working.

A multitude of public policies affect the reward to working, to name just a few: federal, state, and local income taxes, payroll taxes, unemployment insurance benefits, and nutrition assistance programs.

Thanks to a labyrinth of relevant programs the marginal tax rate can equal or exceed 100 percent in some cases, which means that the reward to working is zero or negative. In such cases a person might have more resources available to use or save as a consequence of working less. Legislation that supposedly cuts or credits taxes can nonetheless reduce the reward to working and increase the marginal tax rate appropriate for labor market analysis. If it cuts taxes more for those who work less, then it cuts taxes for those who work more. Even private sector transactions, such as the settlement of mortgage, consumer, and child support debts sometimes may have many of the characteristics of taxes paid to the public treasury, especially in terms of their propensity to reduce the reward to working.

The reward to working, and, therefore, the marginal tax rates, affects what people do. High marginal tax rates mean small incentives to seek, create, and retain jobs. The consequences of high marginal tax rates are found all over the economy, even by persons whose individual marginal tax rates might not be all that high.

Now, America absolutely must have taxes and must have safety net programs, even though they reduce the reward to working, but if this Congress wants to understand or shape what is happening in labor market or to the budgets of social programs, it would be counterproductive to approximate marginal tax rates as zero or to assume them to be eternally constant, regardless of what incentives are embodied in new legislation.

In reality, at least a dozen new and important federal and state safety net benefit rules have collectively changed the reward to working, especially for groups whose employment rates are particularly sensitive to safety net benefits. Of course, unemployment insurance program benefits are now available longer into unemployment spells up to 99 weeks than they were five years ago; but also do not forget that new modernization provisions now provide unemployment benefits in a variety of circumstances when benefits were formerly unavailable.

While it lasted, the 2009 American Recovery and Reinvestment Act also added a bonus to weekly unemployment checks and helped unemployed people pay for their health insurance. The food stamp program expanded in a variety of dimensions. All of these policy changes, and more, serve to increase marginal tax rates over the past couple of years. By my calculations, the net effect of all of these changes through 2012 was to increase marginal tax rates for the median household head or spouse at least 4 percentage points above what they were in 2007, and this was on top of the 40 plus percent marginal tax rate already in place back then. Marginal tax rates have increased even more for less skilled people.

It is sometimes claimed by non-economists, at least, that the safety net does not prevent anyone from working because supposedly everyone strives to have more income rather than less, and we gladly take any job that paid them more than the safety net did. This income maximization claim is contradicted by the most basic labor market observations, not to mention decades of labor market research. A presumably unintended consequence of the recent safety net expansions has been to reduce the reward to working, and, thereby, keep employment rates low, keep unemployment rates high, and keep national spending low longer than they would have if safety net program rules had remained unchanged.

The bottom line is that helping the poor and economically vulnerable has a price in terms of labor market inefficiency. Since 2007, we have been paying more of that price. American public policies have moved significantly in the direction of less labor market efficiency and, perhaps, more than was necessary for providing the assistance to those who need it. Thank you.

[The prepared statement of Casey Mulligan follows:]

PREPARED STATEMENT OF CASEY B. MULLIGAN, PROFESSOR OF ECONOMICS,
UNIVERSITY OF CHICAGO

Chairman Ryan, Ranking Member Van Hollen, members of the committee: thank you for the opportunity and honor to discuss with you today how new safety net program rules over the past couple of years have changed the reward to work. A multitude of public policies affect that reward, and thereby affect who is employed. In some cases, the monetary reward to work is zero, or worse.

OVERVIEW

A basic economic principle is that the monetary reward to working has important effects on how many people are employed, and how much they work. By definition, the monetary reward to working is the difference between the resources a person has available to use or save if she works and what she has available when she does not work.

The effect of taxes and subsidies on the reward to working can be summarized as a marginal tax rate: that is, the difference between taxes paid net of subsidies received when working and net taxes paid when not working, sometimes expressed as a fraction of the amount produced when working.

People without jobs or otherwise with low incomes sometimes receive benefits from social safety net programs. The benefits are rarely called taxes by laymen, but economists understand the benefits to have many of the characteristics of marginal tax rates because a program beneficiary loses some or all of her benefits as a consequence of working. The more income that a person receives when not working, the less is the reward to working.

A multitude of public policies affect the reward to working. To name just a few: federal, state and local income taxes, payroll taxes, unemployment insurance benefits, and nutrition assistance programs.

Thanks to a labyrinth of relevant programs, the marginal tax rate can equal or exceed 100 percent in some cases, which means that the reward to working is zero

or negative. In such cases, a person might have more resources available to use or save as a consequence of working less.

Legislation that “cuts” or “credits” taxes can nonetheless reduce the reward to working, and increase the marginal tax rate appropriate for labor market analysis, if it cuts taxes more for those who work less than it cuts taxes for those who work more.

Even private sector transactions such as the settlement of mortgage, consumer, and child support debts sometimes have many of the characteristics of taxes paid to the public treasury, especially in terms of their propensity to reduce the reward to working.

The reward to working, and therefore the marginal tax rate, affects behavior. High marginal tax rates mean small incentives to seek, create, and retain jobs. The consequences of high marginal tax rates are felt all over the economy, even by persons whose individual marginal tax rates might not be all that high.

America absolutely must have taxes and safety net programs, even though they reduce the reward to working. But if this Congress wants to understand or shape what is happening in the labor market or to the budgets of social programs, it would be counter-productive to approximate marginal tax rates as zero, or to assume them to be eternally constant regardless of what incentives are embodied in new legislation.

In reality, at least a dozen new and important federal and state safety net benefit rules have collectively changed the reward to working, especially for groups whose employment rates are particularly sensitive to safety net benefits.

Of course, unemployment insurance program benefits are now available longer into unemployment spells—up to 99 weeks—than they were five years ago. But also don’t forget that new modernization provisions now provide unemployment benefits in a variety of circumstances when benefits were formerly unavailable. While it lasted, the 2009 American Recovery and Reinvestment Act (hereafter, ARRA) also added a bonus to weekly unemployment checks, and helped unemployed people pay for their health insurance. The food stamp program expanded in a variety of dimensions. All of these policy changes, and more, served to increase marginal tax rates over the past couple of years.

By my calculations, the net effect of all of these changes through 2012 was to increase marginal tax rates for the median household head or spouse at least four percentage points above what they were in 2007 (Mulligan 2012), on top of the forty-plus percent marginal tax rate already in place. Marginal tax rates have increased even more for less-skilled people.

It is sometimes claimed, by non-economists at least, that the safety net does not prevent anyone from working because supposedly everyone strives to have more income rather than less, and would gladly take any available job that paid them more than the safety net did. This “income maximization” claim is contradicted by the most basic labor market observations, not to mention decades of labor market research. A presumably unintended consequence of the recent safety net expansions has been to reduce the reward to working and thereby keep employment rates low, keep unemployment rates high, and keep national spending low, longer than they would have been if safety net program rules had remained unchanged.

The remainder of my testimony offers more detail as to marginal tax rate changes in recent years, and how they relate to the government safety net.

A LABYRINTH OF PUBLIC POLICIES AFFECT THE REWARD TO WORKING

The marginal tax rate is the difference between taxes paid net of subsidies received when working and taxes paid net of subsidies received when not working, sometimes expressed as a fraction of the amount produced when working. Among the variety of measures that economists use to study the reward to working, this concept of the marginal tax rate has the advantage that it readily captures important combined incentive effects of a multitude of tax and subsidy programs (Gruber and Wise 1999).

The marginal tax rate appropriate for labor market analysis includes not only the combined sum of the extra taxes owed when working, but also adds the combined sum of all safety net benefits foregone, because taxes generally take away from the resources available to people who work while safety net benefits generally add to the resources available to people who do not work.

Many of us worked on our federal individual income tax Form 1040 over the weekend and may be familiar with our tax rate on that form. But the marginal tax rate as defined above is significantly different from the Form 1040 rate because, among other things, the federal individual income tax is only one of many taxes. As a consequence of working, and the additional spending and saving that wage in-

come permits, American workers (and employers on behalf of employees) pay income, payroll, sales, excise, property, and other taxes to federal, state and local governments.

Federal, state, and local governments deal in massive amounts of resources, and affect the reward to working both in the process of obtaining revenue and in the process of distributing revenue to beneficiaries. The Bureau of Economic Analysis estimates that income, payroll, sales, and excise taxes amounted to about 23 percent of national income and over 30 percent of the nation's labor income, on average between 2000 and 2010. Even if none of that revenue had been spent on safety net programs, the tax collections by themselves would have reduced the reward to working.

Safety net program spending is also significant, especially during the last several years. I estimate that federal, state, and local spending on non-elderly beneficiaries of unemployment insurance, nutrition assistance, Medicaid, and other means-tested subsidies occurred at a combined rate of more than \$400 billion per year in 2009 and 2010, measured in fiscal year 2010 dollars (Mulligan 2011). Even if governments had somehow been able to fund these programs without any taxes, the process of distributing the program benefits would have reduced the reward to working.

Legislation that "cuts taxes" can nonetheless reduce the reward to working, and increase the marginal tax rate appropriate for labor market analysis, if it cuts taxes more for those who work less than it cuts taxes for those who work more because the reward to working is the difference between taxes (net of subsidies) paid when working and taxes (net of subsidies) paid when not working.

Thanks to the labyrinth of relevant programs moving large amounts of resources, the marginal tax rate can equal or exceed 100 percent in some cases (Romich, Simmelink and Holt 2007), which means that the reward to working is zero or negative. In such cases, a person might have more resources available to use or save as a consequence of working less.

The reward to working, and therefore the marginal tax rate, affects behavior. High marginal tax rates mean small incentives to seek, create, and retain jobs, and to make the sacrifices of time, hassle, etc., naturally required by employers, customers, and clients in exchange for a paycheck. The consequences of high marginal tax rates are felt all over the economy, even by persons whose individual marginal tax rates might not be all that high.

The economic distortions created by marginal tax rates are not linear: an increase from 90 percent to 100 percent has a greater effect on incentives than an increase from 40 percent to 50 percent, which itself has a greater effect on incentives than an increase from 0 percent to 10 percent. A rate increase from 0 to 10, for example, still leaves a worker with 90 percent of her reward from working, whereas a rate increase from 90 to 100 leaves her with no reward.

MARGINAL TAX RATE AND GOVERNMENT SAFETY NET CHANGES IN AND AROUND THE GREAT RECESSION

At least a dozen new and important federal and state safety net benefit rules have collectively changed the reward to working, especially for groups whose employment rates are particularly sensitive to safety net benefits.

The unemployment insurance (hereafter, UI) program offers weekly cash benefits to people who have lost their jobs and have as yet been unable to find and start a new one. On average they receive about \$300 a week until they start working again, until they stop looking for work, or until their benefits are exhausted. Before the recession, an unemployed person in a typical state without high unemployment would often have his benefits limited to a maximum of twenty-six weeks (United States Department of Labor 2007). The federal law in place before the recession included some local labor market "Extended Benefit" triggers that, based on the statewide unemployment rate, would automatically lengthen the maximum benefit period. These automatic triggers began to extend the duration of benefits around the nation in the middle of 2008 (United States Department of Labor 2011a). At about the same time, the Supplemental Appropriations Act of 2008 included new "Emergency Unemployment Compensation" (EUC) legislation that extended maximum benefit periods for the entire nation. The Worker, Homeownership, and Business Assistance Act of 2009 further extended the EUC periods, so that unemployment insurance benefits could be paid up to 99 weeks (United States Department of Labor 2011b).

It is widely recognized that the UI benefit duration rules changed over the past couple of years (see Elsby, Hobijn and Sahin (2010), Shimer (2010), Daly, et al. (2012) and the studies cited in Council of Economic Advisers (December 2010)). Nor is it a surprise that a person unemployed more than 26 weeks saw her marginal

tax rates increase as a result of the rule changes, because they provided benefits that would terminate if and when she went back to work before the benefits were exhausted. More surprising is that other safety net expansions collectively served to increase marginal tax rates significantly more than the new UI benefit duration rules did, not to mention reinforce the labor market impacts of the latter (Mulligan 2012).

The February 2009 American Recovery and Reinvestment Act (hereafter, ARRA) expanded eligibility by encouraging states to “modernize” (and relax) their UI eligibility requirements by processing earnings histories through an “alternative base period,” including persons who quit their job for compelling family reasons, adding 26 weeks of eligibility for persons enrolled in training programs, and/or paying benefits to persons who search only for part-time work (United States Department of Labor 2009). The modernization provisions raised marginal tax rates for people who would have found it difficult or impossible to qualify for UI under the previous rules.

The ARRA also raised marginal tax rates by exempting the first \$2,400 of unemployment benefits received by an unemployed person from 2009 federal income tax (United States Department of Labor 2011b). This provision is an example of a “tax cut” that nevertheless reduced the reward to working because it reduced taxes for people who experienced unemployment sometime during 2009 and did not reduce taxes for people who worked throughout the year.

The ARRA’s Federal Additional Compensation (FAC) provision also raised marginal tax rates by adding \$25 per week to unemployment compensation checks. This \$25 per week was not available to people who were working, because unemployment compensation checks are reserved for people who are unemployed.

For laid off workers who wanted to remain on their former employer’s health plan, the ARRA’s COBRA subsidy offered to pay 65 percent of the cost. For a \$13,027 annual family health insurance premium (Crimmel 2010), that subsidy was worth more than \$700 per month. Many of the unemployed did not receive the COBRA subsidy, but the subsidy increased marginal tax rates for people who did receive it, or would have received it had they not been working.

The Department of Agriculture’s food stamp program, now known as Supplemental Nutrition Assistance (SNAP), provides funds to low income households for the purpose of buying food (Social Security Administration 2008), often in conjunction with cash assistance programs. The rules for SNAP eligibility were relaxed in and around the 2008-9 recession as states were eliminating the “asset test,” as the 2002 Farm Bill permitted them to do. The asset test elimination increased marginal tax rates appropriate for labor market analysis because households could receive SNAP benefits based solely on their net income, and not based on the value of their assets. For persons in the few states that retained asset tests, new federal asset eligibility rules were relaxed by the 2008 Farm Bill (Eslami, Filion and Strayer 2011, 6).

Both the 2008 Farm Bill and the 2009 ARRA increased the amount of the SNAP benefits paid to eligible households, and thereby increased marginal tax rates.

The Housing and Economic Recovery Act of 2008 created a first-time home buyers’ tax credit of up to \$8000, but it phased out as annual family income varied beyond the income limitation. This provision is another example of a “tax cut” that nevertheless reduced the reward to working because it reduced taxes for people below the annual income limit more than it reduced taxes for people earning above it (people who work fewer weeks during the year are more likely to earn below the annual income limit required to obtain the full credit).

The 2009 ARRA created a refundable personal income tax credit for calendar years 2009 and 2010 called the “Making Work Pay Tax Credit” (hereafter, MWPTC). For most people, the MWPTC had no effect on the reward to working because they or their household would have received the same amount of the credit regardless of an individual’s work decision. A few persons saw their reward to working increase, a few others saw it reduced.

In contrast to the many provisions cited above, the employer portion of the federal payroll tax has been reduced since January 2011 and thereby reduced marginal tax rates appropriate for labor market analysis since that date. By my calculations, the net effect of all of these changes through 2012 is still to leave marginal tax rates for the median household head or spouse at least four percentage points higher now than they were in 2007 (Mulligan 2012), on top of the forty-plus percent marginal tax rate already in place. Marginal tax rates have increased even more for less-skilled people.

Of the several safety net expansions cited above, three of them from the ARRA have expired and thereby no longer elevate marginal tax rates as they did when the expansions were active: the COBRA subsidy, the FAC, and the federal income tax

exemption for UI. MWPTC has also expired. The other marginal-tax-rate-elevating provisions remain in place today.

The Patient Protection and Affordable Care Act was passed in March 2010. As a result of this legislation, Medicaid enrollment and spending are expected to increase significantly in 2014, when the program is made “available to able-bodied adults with incomes up to 133 percent of the federal poverty level” (Sack 2010). By increasing the resources that part of the population can have when their incomes are low, this provision of the Act will increase their marginal tax rates. Other provisions of the Act, such as means-tested health insurance premium assistance, will also increase marginal tax rates when they go into effect.

WAGE GARNISHMENT AND RELATED PRIVATE SECTOR ACTIVITIES AFFECTING THE REWARD TO WORK

The Internal Revenue Service, Department of Agriculture, and state unemployment agencies are not the only institutions looking at a person’s employment status and federal individual income tax return to determine how much she should pay or receive. My own employer, the University of Chicago, and thousands of other universities, colleges, and schools look at federal income tax returns through their financial aid programs to determine how much a parent should pay for her child’s education. While we welcome the opportunity to help students from disadvantaged families, economists have long recognized that financial aid practices affect incentives for students’ parents to work and save (Dick and Edlin 1997).

Workers sometimes have their wages garnished by creditors and/or child support agencies. Garnishments may be a necessary part of a well-functioning credit market and necessary to properly support children, but they also serve to reduce the reward to working by the person whose wages would be garnished (Holzer, Offner and Sorensen 2005).

Even if these private sector actions affecting the reward to work had been constant over time, they still interact with the safety net expansions cited above because the economic distortions resulting from marginal tax rates depend on the sum total of all taxes, subsidies and garnishments that derive from a person’s wages. Moreover, it does not appear that the private sector’s influence on marginal tax rates has been constant over time. A new federal bankruptcy law went into effect in late 2005. The 2009 ARRA stepped up enforcement of child support debts (National Conference of State Legislatures 2009).

Perhaps the most dramatic single increase in marginal tax rates has been associated with the federal guidelines for the settlement of “under-water” home mortgages. Mortgage modification initiatives have been the one of the main ways the federal government has sought to reduce home mortgage foreclosures, especially when those foreclosures are motivated by negative home equity (Congressional Oversight Panel 2009, 4). In 2008, the Federal Deposit Insurance Corporation (FDIC), Federal National Mortgage Association (Fannie), and the Federal Home Loan Mortgage Corporation (Freddie) all announced debt forgiveness or “loan modification” formulas. The Treasury Department continued this work under President Obama’s administration with its “Home Affordable Modification Program” (HAMP) as part of its “Making Home Affordable Initiative,” which replaced the Fannie and Freddie programs.

These programs often recommend a new mortgage payment amount that is lower than the payment specified in the original mortgage contract. More important in terms of marginal tax rates, the new payment is set in proportion to the borrower’s income at the time of the modification. The more the borrower is earning at the time of the modification, the more she will be required to pay her lender over the next five to seven years, or more. The marginal tax rate on income earned at the time of modification can easily exceed one hundred percent and sometimes exceed two hundred percent as a result of the federal modification guidelines, not to mention the many other taxes and subsidies that also reduce the reward to working (Mulligan 2009; Herkenhoff and Ohanian 2011).

THE INCOME MAXIMIZATION FALLACY

It is sometimes claimed, by non-economists at least, that the safety net does not prevent anyone from working because everyone strives to have more income rather than less, and would gladly take any available job that paid them more than the safety net did. This “income maximization” hypothesis is contradicted by the most basic labor market observations, not to mention decades of labor market research.

Before the recession began, well over 100 million Americans were not working. To be sure, some of them could find no reward in the labor market and would be stuck without gainful employment no matter how lean the safety net got. But many

others were not working by choice. You probably know skilled stay-at-home mothers or fathers who could readily find a job but believe that the net pay from that job would not justify the personal sacrifices required. They are examples of people who deliberately do not maximize their income. Other examples are people who turn down an out-of-town promotion in order to avoid relocating their families, and workers who eschew higher paying but less safe occupations. Earning income requires sacrifices, and people evaluate whether the net income earned is enough to justify the sacrifices.

When the food stamp or unemployment programs pay more, the sacrifices that jobs require do not disappear. The commuting hassle is still there, the possibility for injury on the job is still there, and jobs still take time away from family, hobbies, and sleep. But the reward to working declines, because some of the money earned on the job is now available even when not working.

Decades of empirical economic research show that the reward to working, as determined by the safety net and other factors, affects how many people work and how many hours they work. To name a small fraction of the many studies: Hoynes and Schanzenbach (2012) show how potential participants stopped working or reduced their work hours when the food stamp program was introduced. Studies of unemployment insurance find that program rules have a statistically significant effect on how many people are employed, and how long unemployment lasts. Yelowitz' (2000) research shows how a number of single mothers found employment exactly when, and where, state-level Medicaid reforms increased their reward from working. Gruber and Wise (1999) and collaborators show how the safety net for the elderly results in less employment among elderly people. Autor and Duggan (2006) and the Congressional Budget Office (2010) explain how the number of disabled people who switch from work to employment-tested disability subsidies depends on the amount of the subsidy relative to the earnings from work. Murphy and Topel (1997) show how poor wage growth among less-skilled men helps explain their declining employment rates during the 1970s and 1980s.

Because economists have identified many other cases in which means-tested and employment-tested subsidies caused people to work less (Krueger and Meyer 2002), it should be no surprise that the same kinds of behavioral responses occurred since 2007: a larger safety net reduced aggregate employment and hours worked.

OTHER MISCONCEPTIONS ABOUT MARGINAL TAX RATES

I previously cited at least a dozen changes in subsidy rules that served to raise marginal tax rates. Any one of them may appear insignificant by itself, especially for the purpose of aggregate labor market analysis. But that doesn't mean that the combination of a dozen or more potentially small marginal tax rate increases is itself small.

Focusing on just one of any of the safety net expansions is also misleading as to the magnitude of the overall increase in marginal tax rates and therefore potentially misleading as to the sources of the major changes in the labor market since 2007. It is even possible that attention to one program in isolation of the wider safety net could motivate backwards public policy responses.

To see this, imagine that UI rules became more generous, and that added to the number of households who were unemployed and with less income than they have when working. A number of the added unemployed people apply for food stamps, which from the food stamp program's point of view makes it look like "the economy is getting worse," so food stamp officials recommend enhancing food stamp benefits, which further increases the marginal tax rate. But, in this example, the added food stamp applications come from higher marginal tax rates created by UI, and the right food stamp policy response may be to reduce benefits in order to stabilize the overall marginal tax rate. My point here is not that the actual safety net expansions were excessive but rather that the economics of the safety net can be different when the safety net is viewed as a whole rather than on a program-by-program basis. The distinction is more than academic: recent events involved expansions of the safety net in many dimensions, and all of that occurred on top of a labyrinth of other safety net programs.

Another misconception is that most of the growth of federal income security program spending came from the recession, and not from more generous program rules (Krugman 2011). My estimates suggest the 2007 to 2010 rate of increase of inflation-adjusted per capita government spending on Unemployment Insurance and SNAP was at least triple of what it would have been if the real benefit and eligibility rules had remained what they were in 2007 (Mulligan 2012).

It is sometimes thought that safety net transactions only impact the people who participate in the programs. To the contrary, the safety net is funded by taxpayers,

lenders, owners of government debt, beneficiaries of government programs other than the safety net, or some combination thereof. As a portion of the beneficiaries opt to earn less, they also opt to spend and save less, as their household budget constraint requires. They lawfully pay less taxes. Businesses anticipate having fewer employees and invest less. These behavioral changes are bad news for employers in general, for people who produce the consumer and investment goods that beneficiaries would be buying if they were back at work (and goods the program funders would be buying if they were not funding the expansions), and for people who live in places like Michigan whose economies are especially intensive in the production of such goods (Gali, Gertler and Lopez-Salido 2007).

CONCLUSIONS

The bottom line is that helping the poor and economically vulnerable has a price in terms of labor market inefficiency. Since 2007, we have been paying more of that price: American public policies moved significantly in the direction of less labor market efficiency, and perhaps more than was necessary for providing assistance to those who need it.

First of all, 100 percent marginal tax rates are difficult to justify as a reasonable balance between equity and efficiency, yet even in 2005 some demographic groups were subject to 100 percent marginal tax rates (Romich, Simmelink and Holt 2007), and the recent safety net expansions documented here added to the number of people facing such rates.

Second, rather than making people feel safer, a number of the safety net expansions may themselves be a source of uncertainty via the political process because, among other things, they must be repeatedly renewed by Congress, and taxpayers are still unsure of exactly who will pay for them (Baker, Bloom and Davis 2011).

Third, my testimony explains how multiple parties—governments, lenders, and courts—have claims on the income that appears on a person's tax return. Multiple tax collectors can lead to excessive marginal tax rates, as each individual collector might not value the effect of his extraction on the revenues received by the other collectors (Olson 2000). For these reasons, it is likely possible to reduce marginal tax rates and enhance labor market efficiency without giving up much or any of the benefits that come from safety net programs.

BIBLIOGRAPHY

- Autor, David H., and Mark G. Duggan. "The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding." *Journal of Economic Perspectives* 20, no. 3 (Summer 2006): 71-96.
- Baker, Scott R., Nicholas Bloom, and Steven J. Davis. "Measuring Economic Policy Uncertainty." manuscript, University of Chicago Booth School of Business., October 2011.
- Congressional Budget Office. "Social Security Disability Insurance: Participation Trends and Their Fiscal Implications." *Economic and Budget Issue Brief*, July 2010.
- Congressional Oversight Panel. "October Oversight Report: An Assessment of Foreclosure Mitigation Efforts After Six Months." October 2009.
- Council of Economic Advisers. *The Economic Impact of Recent Temporary Unemployment Insurance Extensions*. Executive Office of the President, December 2010.
- Crimmel, Beth Levin. "Employer-Sponsored Single, Employee-Plus-One, and Family Health." *Medical Expenditure Panel Survey*. July 2010. <http://www.meps.ahrq.gov/mepsweb/data—files/publications/st285/stat285.pdf> (accessed November 10, 2011).
- Daly, Mary, Bart Hobijn, Aysegul Sahin, and Rob Valletta. "A Rising Natural Rate of Unemployment: Transitory or Permanent?" *Journal of Economic Perspectives* forthcoming (2012).
- Dick, Andrew W., and Aaron S. Edlin. "The Implicit Taxes from College Financial Aid." *Journal of Public Economics* 65, no. 3 (September 1997): 295-322.
- Elsby, Michael W., Bart Hobijn, and Aysegul Sahin. "The Labor Market in the Great Recession." *Brookings Papers on Economic Activity*, Spring 2010: 1-48.
- Eslami, Esa, Kai Filion, and Mark Strayer. "Characteristics of Supplemental Nutrition Assistance Program Households: Fiscal Year 2010." *Supplemental Nutrition Assistance Program (SNAP) Studies*. September 2011. <http://www.fns.usda.gov/ora/menu/Published/snap/FILES/Participation/2010Characteristics.pdf> (accessed November 5, 2011).

- Gali, Jordi, Mark Gertler, and J. David Lopez-Salido. "Markups, Gaps, and the Welfare Costs of Business Fluctuations." *Review of Economics and Statistics* 89 (February 2007): 44-59.
- Gruber, Jonathan, and David A. Wise. *Social Security and Retirement around the World*. Chicago: University of Chicago Press (for NBER), 1999.
- Herkenhoff, Kyle F., and Lee E. Ohanian. "Labor Market Dysfunction During the Great Recession." NBER working paper, no. 17313 (August 2011).
- Holzer, Harry J., Paul Offner, and Elaine Sorensen. "Declining Employment Among Young Black Less-Educated Men: The Role of Incarceration and Child Support." *Journal of Policy Analysis and Management* 24, no. 2 (Spring 2005): 239-50.
- Hoynes, Hilary Williamson, and Diane Whitmore Schanzenbach. "Work incentives and the Food Stamp Program." *Journal of Public Economics* 96, no. 1-2 (February 2012): 151-62.
- Krueger, Alan B., and Bruce D. Meyer. Labor supply effects of social insurance. Vol. 4, in *Handbook of Public Economics*, edited by Alan J. Auerbach and Martin Feldstein, 2327-92. Elsevier, 2002.
- Krugman, Paul. "The Obama Spending Non-Surge." *The Conscience of a Liberal*. November 27, 2011. <http://krugman.blogs.nytimes.com/2011/11/27/the-obama-spending-non-surge/>.
- Mulligan, Casey B. "Means-tested Mortgage Modification: Homes Saved or Income Destroyed?" NBER working paper, no. 15821 (August 2009).
- Mulligan, Casey B. "The Expanding Social Safety Net." NBER working paper, no. 17654 (December 2011).
- . *The Labor Market and the Great Recession: How Redistribution Distorted the Economy*. Oxford University Press (in production), 2012.
- Murphy, Kevin M., and Robert Topel. "Unemployment and Nonemployment." *American Economic Review* 87, no. 2 (May 1997): 295-300.
- National Conference of State Legislatures. "Child Support Funding in the American Recovery and Reinvestment Act of 2009." ncls.org. March 2009. <http://www.ncsl.org/print/statefed/ARRA-ChildSupport.pdf>.
- National Employment Law Project. "What is An "Alternative Base Period" and Why Does My State Need One?" National Employment Law Project. April 2003. <http://www.nelp.org/page/-/UI/abpfactsheet041003.pdf> (accessed December 2011).
- Olson, Mancur. *Power and Prosperity*. Oxford: Oxford University Press, 2000.
- Romich, Jennifer L., Jennifer Simmelink, and Stephen Holt. "When Working Harder Does Not Pay: Low-Income Working Families, Tax Liabilities, and Benefit Reductions." *Families in Society: The Journal of Contemporary Social Services* 88, no. 3 (2007): 418-26.
- Sack, Kevin. "Recession Drove Many to Medicaid Last Year." *New York Times*, October 1, 2010: A16.
- Shimer, Robert. "The Labor Market in the Great Recession: Comment." *Brookings Papers on Economic Activity*, Spring 2010: 57-65.
- Social Security Administration. Food Stamp Facts. May 2008. <http://ssa.gov/pubs/10101.html> (accessed November 12, 2011).
- United States Department of Labor. "Monetary Entitlements." *Comparisons of State Unemployment Laws*. 2007. <http://workforcesecurity.doleta.gov/unemploy/uilawcompar/2007/comparison2007.asp> (accessed November 2, 2011).
- . "Persons Claiming UI Benefits in Federal Programs." *Unemployment Insurance Program Statistics*. October 7, 2011a. <http://www.ows.doleta.gov/unemploy/docs/persons.xls> (accessed October 25, 2011).
- . "Unemployment Insurance Program Letter No.14-09." *Employment and Training Administration*. February 26, 2009. <http://wdr.doleta.gov/directives/corr—doc.cfm?DOCN=2715> (accessed January 18, 2012).
- . "Unemployment Laws and Insurance." *Chronology of Federal Unemployment Compensation Laws*. May 3, 2011b. <http://workforcesecurity.doleta.gov/unemploy/pdf/chronfedlaws.pdf> (accessed October 28, 2011).
- Yelowitz, Aaron S. "Evaluating the Effects of Medicaid on Welfare and Work: Evidence from the Past Decade." *Employment Policies Institute*, 2000.
- Chairman RYAN. Thank you. Mr. Haskins.

STATEMENT OF RON HASKINS

Mr. HASKINS. Chairman Ryan, Ranking Member Van Hollen, members of the committee, thank you for inviting me. It is a great honor to be here to testify. I think this is the only place in the country where American people can come and see a budget that

will actually seriously address our long-term deficit and bring it into acceptable range in the foreseeable future. I think that is a great achievement; of course, it does not mean that it has to happen exactly the way Chairman Ryan lays it out, but I assume that this committee will have a full argument about how the Democrats would like to change it, and, in the end, we are going to have to change a lot that we do, including, I think, with taxes and spending. And, so, have at it. I am glad to participate in it.

I am going to, was asked by the committee to talk about three things: spending, phase-out rates, or benefit reduction rates that Casey just talked about, and block grants. Let me just say a few words about each.

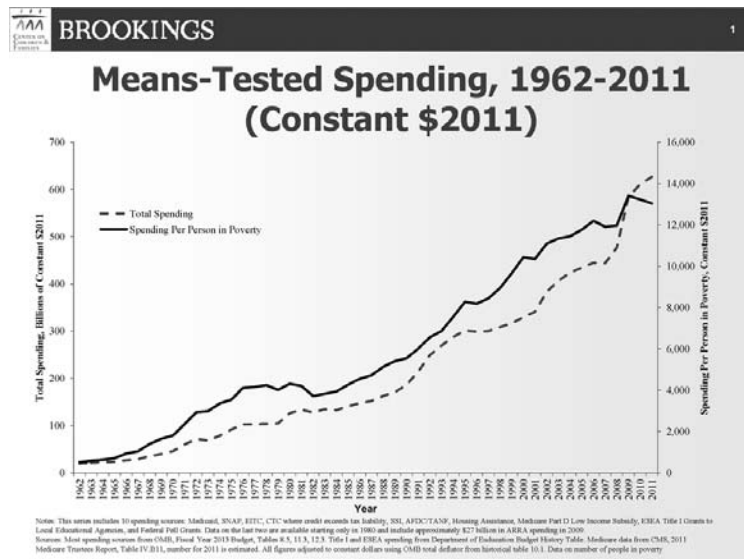
First, on spending, Robert Rector has laid out the spending in great detail. I am going to defer mostly to him, but I do want to make a few points. First, if you look at Figure 1 in my testimony, here you see that there has been a huge increase in spending on means-tested programs. These are the 10 biggest means-tested programs taken from a CRS document, so this is not the entire safety net; it is the 10 biggest programs, and it has increased almost every year both in constant dollars, total spending, and per person in poverty. So we are spending more and more and more.

To give you an example, if you take 1980, we spent about \$126 billion on these 10 programs. In 2011, we spent \$626 billion on these programs, and if you translate that to spending per person in poverty, it goes from about \$4,300 to \$13,000. So no matter how you look at this, we have very substantially increased spending. By the way, it has also increased about 31 percent in the three years of the Obama administration, even though in one year and, perhaps, two years spending per person in poverty actually fell. That shows you how much the poverty rate increased.

We have a lot of spending. I was on the staff of the Ways and Means Committee in 1996, and we thought we had a pretty good safety net, and we were spending about a third of what we spend now. So the point of this is that I think there ought to be savings in here, and it is a matter of looking to how to get it.

So spending: big increases, no matter how you measure it some of the money is spent by people above the poverty line, and the big question is what are the programs that we are getting the most benefit from, and what are the programs we are not because we need to change something. Some of the savings are going to have to come out of low-income programs, I believe.

Second, phase-out rates: This is a huge problem. Casey's testimony is the best short treatment of this issue that I have ever seen. It is really complete. If you read the references, it will drive you nuts, because it is a very complex area. If you show the third figure here, this shows a chart.



I am not going to explain the chart, but I just wanted you to see what you could nicely call a spaghetti chart. It is from the Congressional Research Service in 1995, and what it does is trace out what happens to various taxes and benefit programs as a person's earnings increase. This is exactly the topic that Casey was addressing. And, as you can see, you never get as much as you earn. That is the disincentive effect; and at some point in the distribution you lose almost everything you earn; and at one point you actually lose more than 100 percent of what you earn. It does not pay to earn that extra dollar. So, these are a big issue in our programs, and they stem especially from the fact that we have so many programs in both the tax code and in spending programs, and some are going down and up. They are not coordinated at all. We could create one big program, but that would create all kinds of headaches, administrative and otherwise, that I outline in the testimony. So, this is definitely a problem.

But, I want to point something out. In the welfare reform legislation of 1996, we basically cut through this problem by saying you have to work. Work requirements and time limits, seeing also a time limit on welfare, they trump phase-out rates. Why? Because you have to work, and that is what the welfare reform bill did, and people went to work in droves.

And, secondly, we have created, over the years, what I would call a work support system. It has the earned income tax credit, childcare, and other benefits, that help low income working families. Back in the old days if people took a job they lost all their welfare benefits. So we have reduced those benefit reduction rates, but they are still very substantial, as Casey points out. But in a program where you are required to work and lose your benefits if you do not, then I state the benefit reduction rate makes much less difference than under other circumstances.

Finally, I want to say just a few words about block grants. Block grants have two huge advantages. One is from the state perspective they give a lot of flexibility; now not every block grant does that. You could write a block grant so it is full of all kinds of details and requirements, what governors used to call strings, in which case it does not give states the flexibility.

The other advantage is from the federal perspective that it is a way to control spending. An open-end entitlement like Medicare, Social Security, Medicaid, and so forth, you are subject to the whims of the population and what changes people make in benefits and so forth, and those programs do not come up for review very often. So a way to control the spending is to give a block grant with a fixed amount of money and give the states flexibility. I would make at least one exception to that, and that is I think we still have to have accountability. We have to have financial accountability, which I think we would have almost no matter what you did because of the Single Audit Act, but we also have to find out if these programs actually have impacts; so I would require data reporting from the states to see if these programs are having their intended effects.

Another thing I want to say about block grants is that when we passed two big block grants in 1996, both the TANF Program, which ended about three welfare programs and put them in a block grant, and a daycare program block grant, which ended about five programs, and when we did that we consulted carefully with the states. We had one consultation session that I remember that had 30 or 40 people from state governments in there, and we went through the changes that we were making and the strings that were on the block grants. Since the states have to implement them, I think it is a very good idea to consult carefully with the states in the construction of the block grant.

So, Chairman Ryan, thank you again for asking me to testify. We simply have to do something about our deficit. Our children and grandchildren are paying a price, and it is going to involve some changes in low income programs for sure. Thank you.

[The prepared statement of Ron Haskins follows:]

PREPARED STATEMENT OF RON HASKINS, CO-DIRECTOR OF THE CENTER ON CHILDREN AND FAMILIES, BROOKINGS INSTITUTION; SENIOR CONSULTANT, ANNIE E. CASEY FOUNDATION

CHAIRMAN RYAN, RANKING MEMBER VAN HOLLEN, AND MEMBERS OF THE COMMITTEE: Thanks for inviting me to testify today. I consider it a privilege to have the opportunity to talk to members of the House Budget Committee.

In response to instructions from the Committee, I'm going to talk about three topics: trends in spending on means-tested programs; work incentives and phase out rates for means-tested programs; and block grants.

TRENDS IN MEANS-TESTED SPENDING

The lower line in Figure 1, based on a Brookings analysis of federal budget data published by the Office of Management and Budget, shows federal spending since 1962 in the ten biggest means-tested federal programs. In 2011, we estimate that about 87 percent of the spending was on entitlement programs.¹ Federal spending on poor and low-income Americans has increased enormously. Since 1980, by which time all but two of the ten programs that spent the most money in 2011 were in place, spending has increased by about \$500 billion, from \$126 billion to \$626 billion after adjusting for inflation.

One cause of the increase in spending is that both the population and the number of poor people in the U.S. have increased over time. Thus, even if the federal gov-

ernment spent the same amount of money in 2011 on means-tested programs per person in poverty as we spent in 1962, spending would have increased. The solid line in Figure 1 expresses the increase in federal means-tested spending as spending per person in poverty. Expressed in this way, over the past five decades, federal spending on major means-tested programs has increased from about \$516 to a little more than \$13,034 per person in poverty. If we use the figure on spending per person in poverty in 1980, when most of the major means-tested programs were in place, the increase is from about \$4,300 to \$13,000 per person or more than \$3 spent in 2011 for every dollar spent in 1980.² More recently, means-tested spending increased from about \$477 billion to \$626 billion in the three years of the Obama administration, an increase of about 31 percent. However, the recession that began in December 2007 and the increase in poverty during and following the recession is an important part of the explanation for increased means-tested spending during the Obama administration. Spending per person in poverty increased by about 9 percent as compared with the 31 percent increase in total spending during the first three years of the Obama administration. A portion of the rise in means-tested spending, which was authorized as part of the American Recovery and Reinvestment Act of 2009, began to expire in 2010.

Figure 1

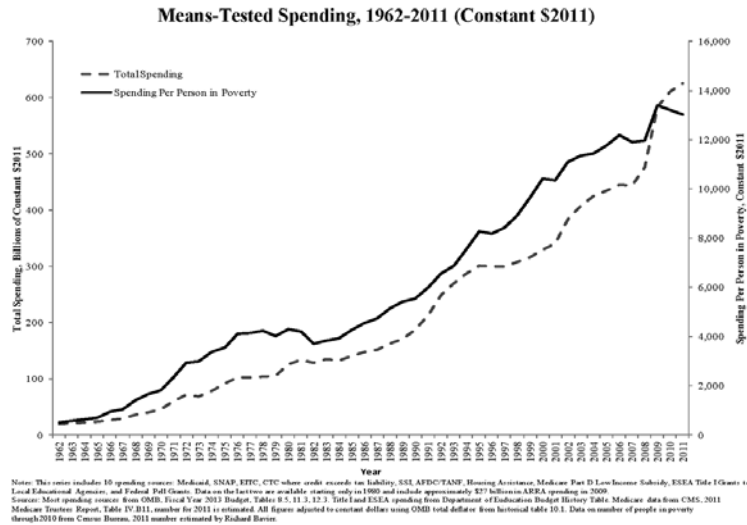
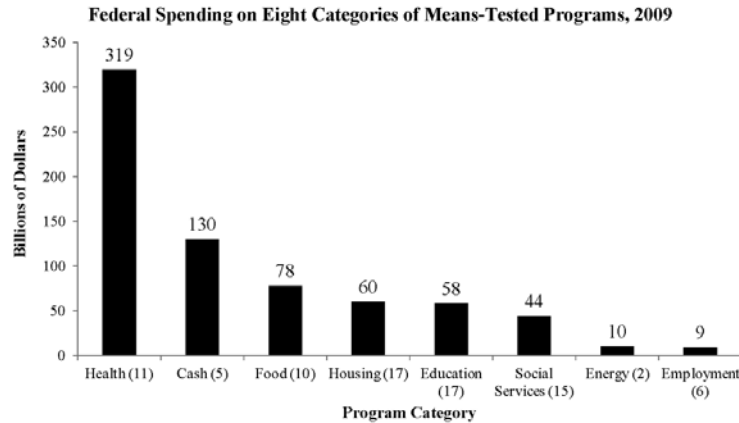


Figure 2 shows how means-tested spending is distributed among eight broad categories of programs.³ The categories include health, cash, food, housing, education, social services, energy, and employment and training. The figures are for 2009, the last year for which the Congressional Research Service has calculated means-tested spending within these eight categories. Not surprisingly, the figure shows that health is by far the biggest category of spending at \$319 billion in 2009, about 2.5 times as much as cash programs, the second biggest category. Employment and training at \$9 billion is the smallest of the eight categories. Figure 2 shows that means-tested spending, like total spending in the federal budget, is driven in large part by the rising cost of health care. In this respect, figuring out ways to control the growth of health care spending would reduce the rate of increase in both total federal spending (and debt) as well as federal means-tested spending.

Figure 2



Source: Congressional Research Service, 2011.

Note: Numbers in parentheses following or below program categories are the number of programs in each category.

A few additional points about these figures are in order. First, keep in mind that these spending data are for only the ten largest means-tested programs. The Congressional Research Service estimates that in 2009, spending on these ten programs represented about 75 percent of total federal means-tested spending.⁴ If that percentage remained roughly the same for 2011, total federal means-tested spending in that year was closer to \$835 billion than the \$626 billion spent on the ten biggest programs.

Second, state and local governments spend their own money on many of these programs. The Congressional Research Service has estimated that state and local governments supplemented federal spending on means-tested programs by around 27 percent in 2004.⁵ If we assume that the 27 percent has remained roughly constant, we can estimate that total federal, state, and local government spending on means-tested programs was probably around \$1,143 billion in 2011.

On a per-person in poverty basis, that figure represents about \$23,731 in spending by federal, state, and local governments. But this estimate should be considered in light of several caveats. The first is that not all of the spending on means-tested programs goes directly to individuals and families. Some of the money is spent on programs, such as the \$14.5 billion spent on Title I of the No Child Left Behind Act and the \$9 billion in spending on employment and training programs, that provide services rather than direct cash or in-kind benefits. Second, some of the money in programs that provide cash or in-kind benefits directly to households goes to individuals and families that are not below the poverty level. Children in families of up to 200 percent of the poverty level, for example, are eligible for Medicaid or the Child Health Insurance Program (CHIP) in almost every state.⁶ Similarly, people in households with incomes up to 130 percent of poverty are eligible for SNAP benefits (Supplemental Nutrition Assistance Program, previously food stamps). In the case of the Earned Income Tax Credit (EITC), in 2010 a single mother with two children could receive benefits if the mother's income was below \$40,964, about 225 percent of the poverty level for this family. Professor David Armor of the School of Public Policy at George Mason University is in the process of using Census Bureau data and data from other sources to estimate the percentage of benefits in health, nutrition, housing, and cash means-tested programs that go to individuals or households with income above the poverty line. Although Armor's work has not yet been published, he is finding substantial fractions of the benefits in all these programs going to individuals and families with income above the poverty level and some of it even going to those with incomes above 200 percent of the poverty level.

Means-tested spending has increased enormously, no matter how it is measured. Although there have been some periods of comparatively rapid growth, such as during the recession of 2007 to 2009, Figure 1 shows that spending has grown almost every year for the last five decades. The increase in spending has been the most rapid in health programs, but cash, nutrition, and several other types of spending have also increased rapidly. Similarly, spending per person in poverty has also increased substantially, although not quite as rapidly as total spending.

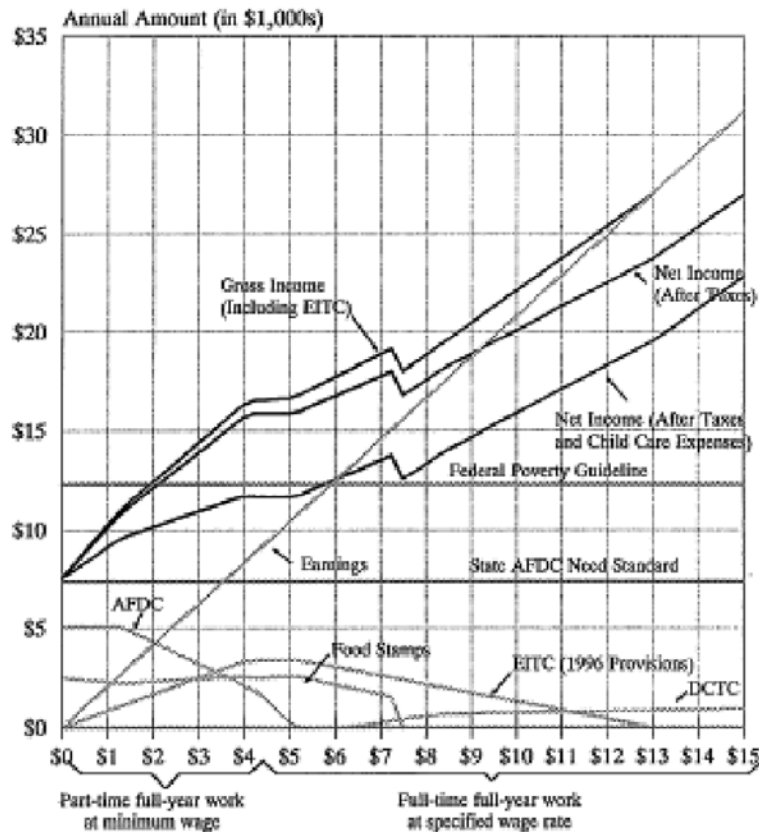
WORK INCENTIVES AND BENEFIT PHASE OUTS

The impact of welfare benefits on work incentive has always been a contentious issue. Common sense tells us that if able-bodied people get welfare benefits without doing anything in return, their incentive to work and achieve self-sufficiency will be diminished. This common sense view is also supported by a host of research studies. Reviews of the empirical evidence on this issue have consistently shown that welfare reduces work effort.⁷ To reduce such work disincentive, most means-tested programs have phase out rates because program designers want to maintain a financial incentive for benefit recipients to work. The hope is that by reducing welfare benefits by less than a dollar for each dollar of earnings, recipients will have at least some incentive to work or work more. The ideal outcome would be to design benefits so that an extra dollar of earnings would always produce a net income increase that is as close to the amount of earnings as possible. The lower the phase out rate, the greater the increase in net income and therefore work incentive. However, lower phase out rates make means-tested programs more expensive. There is a clear tradeoff between program cost, benefit phase out rates, and work incentive.

The difficult problems posed by phase out rates and work disincentives is greatly complicated by the fact that all families with earnings are subject to taxation of their earnings and some families receive more than one means-tested benefit. Consider some of the possibilities: workers are subject to the roughly 15.3 percent FICA tax⁸ from their first dollar of earnings; they could face an EITC phase out of up to 21 percent; families with housing benefits face a marginal tax rate of 30 percent on their earnings; and so forth. Considering all of the effects on net income and work incentives simultaneously strains the ability to understand just how much net income would change at a particular point in a person's earnings curve. Figure 3 is taken from a 1995 report from the Congressional Research Service. Although the specific phase out rates portrayed in the figure are somewhat out of date, a mere glance at the figure conveys the immense complexity of trying to figure out the net impact of so many different phase out and phase in rates operating simultaneously. The Congressional Budget Office is now completing a similar report on marginal tax rates in the tax and transfer system which goes into great detail in showing the actual marginal tax rates faced by individuals and families with various characteristics. Some of the rates are very high and under some circumstances an extra dollar of earnings can result in net income increases of 50 cents or less.

Figure 3

PENNSYLVANIA:
Selected Income/Benefits for a Mother with 2 Children
(assuming the mother has child care expenses)
by Full-time Full-Year Hourly Wage Equivalent



Source: CRS.

Problems maintaining work incentives are an inevitable consequence of means-tested programs. It would be possible to reduce, but not eliminate, the work disincentive effect of the current system if all benefits could be combined and then phased out at a single phase out rate. However, there are many problems with creating such a system. For one thing, the current benefits system is a combination of cash (the EITC, the Child Tax Credit, TANF, and Supplemental Security Income) and in-kind benefits (primarily SNAP and other nutrition programs, housing, Medicaid and SCHIP, and home heating). Perhaps the in-kind benefits could be paid as cash, but that would cause problems with various interest groups such as the National Grocers Association that would fight against cashing out SNAP benefits. Democrats might oppose converting benefits to cash because providing a lump sum cash payment would make the high level of benefits paid to some families more

transparent than under a system when some of the benefits are paid in kind, thereby raising objections from Republicans who would likely argue that the system is too generous and should be cut. Moreover, the administrative complexity of such a system might make it very difficult to operate. Yet another problem is that an all-cash system could greatly increase the number of means-tested benefits families receive (although they would be combined into one benefit). As surprising as it might seem, under the current system few families actually receive all the means-tested benefits for which they qualify. A recent study sponsored by the Department of Agriculture showed that only 72 percent of people qualified for SNAP benefits actually receive them and that in some states the rate is below 60 percent.⁹ Both the Current Population Survey and the Survey of Income and Program Participation show that random samples of Americans receive relatively few of the benefits for which they are qualified.¹⁰

Given the difficulty of phasing out means-tested benefits and maintaining work incentives, an approach to this issue taken in the TANF program established by the 1996 welfare reform legislation is important to consider. Regardless of benefit phase out rates, a matter that was left up to states by the 1996 law, the federal statute requires state programs to have two features that directly address work incentive. The first is that all state programs are required to have strong work requirements. Specifically, at any given moment 50 percent of TANF recipients must be involved in work activities that are tightly defined in the legislation. States that do not comply are fined. As part of the work requirement, states are required to impose financial sanctions on recipients who do not comply with the work requirement. The combination of work requirements imposed on both states and individuals backed up by financial sanctions serve to motivate states to adopt demanding programs and recipients to prepare for and look for work, usually in the private sector. In addition, the TANF legislation imposes a five-year limit on benefit receipt, sending a strong signal that benefits are not permanent, as they had been under the Aid to Families with Dependent Children program that TANF replaced. With strong work requirements and time limits, the work incentive created by benefit phase out rates is much less important. Soon enough, individuals must work regardless of the financial work incentives.

Despite these strong pro-work features of the TANF program, it would be a serious mistake to think that American social policy depends exclusively on these essentially negative inducements to work. Beginning roughly in the mid-1980s, Congress created or reformed a host of programs that supplemented the income of poor and low-income working families, especially single mothers. These reforms included:

- Expansion of Medicaid and CHIP benefits so that all children in families under 200 percent of poverty are eligible for coverage in most states
- Several expansions of funding for child care and reform of child care programs to give states more flexibility in use of child care subsidies to help working families
- Several reforms of the SNAP program making it easier for working families to receive food subsidies
- Numerous expansions of the EITC; the maximum EITC benefit in most states is greater than the average value of their TANF benefit
- Creation of the refundable child tax credit that, like the EITC, provides a cash benefit to low-income families with earnings.

Taken together, these work support benefits constitute the nation's most successful method of attacking poverty among families with children.¹¹ The combination of increased work by poor mothers following welfare reform and benefits from the work support system resulted in substantial declines in poverty among children in female-headed families. Even today, after two recessions, the poverty rate among children living in female-headed families is lower than it was before welfare reform and the work rate among single mothers is still higher than before welfare reform.¹²

The TANF experience demonstrates that using phase out rates to increase work incentive can be trumped by strong work requirements and a comprehensive work support system.

BLOCK GRANTS

Block grants provide states with a sum of money to accomplish broad policy purposes which are specified in the authorizing language. Block grants can be constructed so that they achieve a major goal of state policy and a major goal of federal policy.¹³ States are always pleased to accept federal dollars, of course, but they also want flexibility with how the dollars are to be spent. Thus, states are doubly pleased if the block grant specifies the broad purposes of the federal grant and leaves it to state government to decide how best to achieve those purposes. From the federal perspective a major potential advantage of block grants is that spending can be con-

trolled. In the case of open-ended entitlement programs such as Medicaid and SNAP, everyone who meets program qualifications has a legal right to receive the benefit. By contrast, in programs with capped spending such as housing programs and the major child care programs, local authorities or states receive a fixed amount of money and individuals are not entitled to receive the benefits. Most block grants, including the TANF program, the Child Care and Development Fund, and the Social Service Block Grant, have fixed funding. In all three of these cases, federal spending has increased slowly if at all in recent years and then only when Congress explicitly authorized and appropriated the additional funds. Given the enormous and growing deficit that afflicts the federal government, the possibility of spending control in major areas of social policy through the use of block grants should not go unnoticed.

The history of federal block grants shows that it is rare for the federal government to provide states with funds to achieve broad social goals without some strings attached. In the case of TANF, for example, the block grant came accompanied by substantial requirements for data reporting, work requirements that states had to follow, and many other strings. These requirements were negotiated with states in marathon sessions that resulted in requirements that states felt they could live with. If Congress is to create additional block grants, it would be advisable to negotiate the terms of the block grant with states. In the case of TANF, Congress worked with the National Governors Association, the National Conference of State Legislators, and the American Public Human Services Association to find mutually acceptable provisions on work requirements, data reporting, and other details.

The general issue of block grant requirements is especially important because of the need for accountability in spending federal funds. Under the Single Audit Act, all federal grants of over \$100,000 given to states must be audited under widely accepted audit standards. But accountability for spending goes far beyond ensuring that funds are spent on activities for which they are intended. Rather, recent years have seen increased emphasis on showing whether federal funds are spent on state programs that actually achieve their purposes. Especially in education programs and welfare programs designed to encourage work, high quality program evaluations, usually involving random assignment designs, are the order of the day. Both the Bush and Obama administrations placed great emphasis on the importance of evidence-based policy.¹⁴ Evidence-based policy is especially important today because the nation's major social intervention programs in preschool, the public schools, delinquency, employment and training, and many other areas usually do not have significant impacts on the social problems they were designed to address.¹⁵

To continue this growing federal practice of insisting on program accountability, block grants should include, in addition to financial accountability, two types of mandatory reporting. First, all programs receiving block grant funds should be required to report a standard set of data on program participants such as number and characteristics of people served, type of treatment, length of treatment, and, where possible, evidence of program success. Second, the secretary of the federal agency administering the program should be provided with funds to conduct high-quality evaluations of selected programs to determine if particular approaches or program models, as well as the specific characteristics of program models, are effective in producing the desired program outcomes.

ENDNOTES

¹Housing, Title I grants to local education agencies, and half of Pell Grants were counted as non-entitlement spending. Thus, \$545.0 of total spending of \$626.2 or 87 percent was entitlement spending in 2011.

²The number of people in poverty in 2011 will not be published by the Census Bureau until next fall. Based on a model designed by Richard Bavier, a former senior official at OMB, that has successfully predicted the poverty level for the past several years, poverty increased by .6 percentage points in 2011, bringing the poverty rate to 15.7 percent in that year. According to the American Community Survey, the population of the United States in 2011 was 306 million. Thus, around 48,042,000 people were poor in 2011. This is the figure used to compute means-tested spending per person in poverty for 2011.

³Karen Spar, "Federal Benefits and Services for People with Low Income: Programs, Policy, and Spending, FY2008-FY2009" (R41625), Washington, DC: Congressional Research Service, January 2011, p. 9.

⁴Karen Spar, "Federal Benefits and Services for People with Low Income: Programs, Policy, and Spending, FY2008-FY2009" (R41625), Washington, DC: Congressional Research Service, January 2011, p. 12.

⁵Domestic Social Policy Division, "Cash and noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002-FY2004" (RL33340), Washington, DC: Congressional Research Service, March 2006.

⁶According to the Kaiser Family Foundation, only North Dakota, Oklahoma, Arkansas, and Idaho set the child eligibility level for Medicaid and CHIP below 200 percent of poverty; half the states are at 250 percent or above. See <http://www.kff.org/medicaid/upload/7993-02.pdf>

⁷Robert Moffitt, "Incentive Effects of the U.S. Welfare System: A Review," *Journal of Economic Literature*, 1992, 30(1): 1-61; Sheldon Danziger, Robert Haveman, and Roert Plotnick, "How Income Transfers Affect Work, Savings, and the Income Distribution: A Critical Review," *Journal of Economic Literature*, 1981, 97(3): 975-1028.

⁸The FICA tax for Social Security and Medicare is split between employer and employee payments totaling 15.3 percent of earnings (up to a limit of about \$106,800 in the case of the Social Security Tax). However, economists assume that if the portion of the tax paid by employers were not required by federal law, employers would increase wages by an amount equal to the tax.

⁹Karen E. Cunyningham, "Teaching Those in Need: State Supplemental Nutrition Assistance Program Participation Rates in 2009," Washington, DC: U.S. Department of Agriculture, December 2011.

¹⁰Janet Currie, "The Takeup Rate of Social Benefits," Los Angeles, CA: UCLA, 2004.

¹¹A study in the 2008 edition of the Ways and Means Committee's Green Book (see Appendix E, Table E-31) shows that, primarily because of increased work rates, the poverty rate of families headed by never-married mothers before any government taxes or transfers, fell from 48.3 percent to 39.6 percent between 1989 and 2006. Thus, due to work effort by these mothers, the poverty rate before taxes and transfers had fallen by nearly 20 percent. When support for these working families from the work support system were added to income in 2006, the poverty rate fell from 39.6 percent to 26.1 percent or by an additional 35 percent. The combination of increased work rates and an improved work support system has had a major impact on poverty among families headed by never-married mothers.

¹²Poverty rates for families headed by single mothers decreased between 1996 and the start of the Great Recession in late 2007, from 35.8 percent to 30.7 percent. Even with increased hardship and unemployment during the recession, the 2010 rate of 34.2 percent is still below the 1996 rate. According to Brookings tabulations of data from the Current Population Survey, the average employment-to-population ratio for never-married mothers in the five years before welfare reform in 1996 was 44.6 percent. The ratio increased every year through 2000, increasing to 65.6 percent in that year, an increase of 47 percent compared with the five years before welfare reform. Even in 2010, after two recessions, the rate was 58.7 percent, still over 30 percent above the pre-welfare reform level.

¹³Pietro S. Nivola, Jennifer L. Noyes, and Isabel V. Sawhill, "Waive of the Future? Federalism and the Next Phase of Welfare Reform," Brookings Institution, Welfare Reform and Beyond Policy Brief #29, March 2004.

¹⁴Ron Haskins and Jon Baron, "Building the Connection between Policy and Evidence," London: NESTA, September 2011.

¹⁵Isabel V. Sawhill and Jon Baron, "Federal Programs for Youth: More of the Same Won't Work," *Youth Today*, May 2010, p. 21.

Chairman RYAN. Thank you, Mr. Haskins. Mr. Rector.

STATEMENT OF ROBERT RECTOR

Mr. RECTOR. Thank you very much for the opportunity to testify here today. If we were to look at the overall safety net, I think it basically has three components, which are for the elderly, Social Security and Medicare, for the unemployed, unemployment insurance, and worker's compensation; and, for the poor, what I call the means-tested welfare state.

Now, the means-tested welfare state is largely unknown. Everybody understands we spend a lot of money on Social Security and Medicare. Virtually no one understands that for every dollar we spend on Social Security and Medicare, we are spending 75 cents on assistance to the poor. And, this year alone that spending came to \$927 billion, close to a trillion dollars a year, on expenditures that are largely unrecognized. Most of the debate about this system is irrational because there are 79 different programs, and when we talk about welfare we basically talk about one program at a time while ignoring the other 78. It is like having a jigsaw puzzle with 78 pieces, but when you write a press story about it, you only write a press story about one piece at a time. That always makes the welfare state seem very small, very meager, and it always seems like we are not spending enough, basically, because we are never actually discussing how much is going out the door on these programs.

Now, if you take this \$927 billion, these programs are unique in the sense that they have required state spending in them, so you cannot just look at federal spending. You are requiring states to

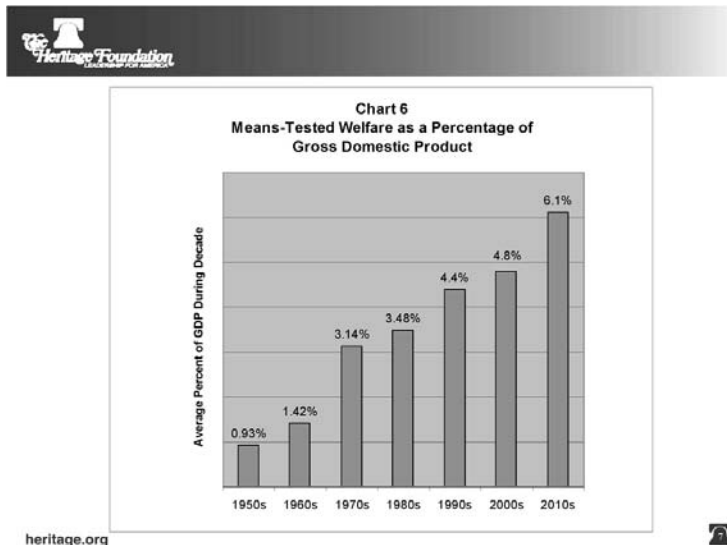
spend money on these programs, particularly on Medicaid, and that goes out the door, and it assists poor people, and that is about a quarter of all this spending. You have to add that in order to get a good sense of the resources. When you look at these 79 programs what you find is about half the spending goes to medical care, primarily through the Medicaid program, about 40 percent of it, which is about \$380 billion a year, goes to cash, food, housing, and housing programs, a lot of different programs there. And about 10 percent of this spending goes to what I call our enabling programs, programs that are intended to make the poor more self-sufficient, like child development or targeted job training or targeted education funds into poor communities from the federal government.

About half of these benefits go to families with children, predominantly single parent families with children. About a quarter of them go to the disabled. About 15 percent go to the elderly; so it is a diverse population.

And Ron has gone into the spending. Adjusting for inflation back when the war on poverty started in 1965, we were spending about, I think, \$60 billion a year. This spending, adjusting for inflation, has increased sixteen fold since that time. All together, we have spent \$19.8 trillion in means-tested assistance since the beginning of the war on poverty. People would say that is mainly in medical care. This breaks it out. The purple is the medical care, but, you can see even after adjusting for inflation, all the other types of spending went up very dramatically as well.

For example, means-tested cash, food, and housing, over the last 20 years, actually grew faster than Social Security spending; most people have no idea of this. In fact, a lot of people are surprised when they see this, and they say, "I thought we ended this back in 1996." And I say, "Yeah, you ended it short of \$927 billion, okay?" Enormous growth in spending with really no stopping point.

This chart shows this spending as a percentage of GDP.



What you can see is back at the beginning of the war on poverty the spending was about one percent of GDP, and it increases about one percentage point of GDP each decade. By the 1980s you were up to around 3.5 percent of GDP. During Bush's presidency, you were at about 5 percent of GDP. We have now ratcheted up to 6 percent of GDP. And people might say that is reasonable. We are in a recession. We ought to spend more money on the poor during a recession. But when you look at Obama's out year projections in his fiscal year 2013 budget this spending never comes back down. It grows dramatically over the next ten years and will remain always at or above 6 percent of GDP for the foreseeable future.

One of the rules here is the ratchet principle. When this spending goes up, there is never any press comment on it, okay? It is invisible, absolutely invisible. It just goes up, and you never will see a press story about this at all. Then after it goes up 1 percentage of GDP, if you were to try to pull it back down to, say, 5 percent of GDP, then you are savaging the safety net and so forth and so on; so all the increases are always invisible. They are off-camera. They are never talked about. If you try to take a dime out of this after it has been ratcheted up then the sky is falling. The end of the world is right here upon us.

Now, one question is, well, how much is this spending? How much is \$927 billion a year? Well, the answer is if you just took that money and divided by the number of poor people in the U.S., it comes to around \$19,000 per poor person per year. My figures are a little different than Dr. Haskins because I have the state contributions in this as well; and that is not a very accurate figure, because a lot of this spending goes to non poor people as well.

A more accurate way of assessing these resources is to say if you took all of this spending and spread it out equally within the lowest income one-third of the population, about 100 million people, which is probably the pool of overall recipients, how much does that amount to? It comes to around \$9,000 per person per year, or around \$36,000 for a family of four.

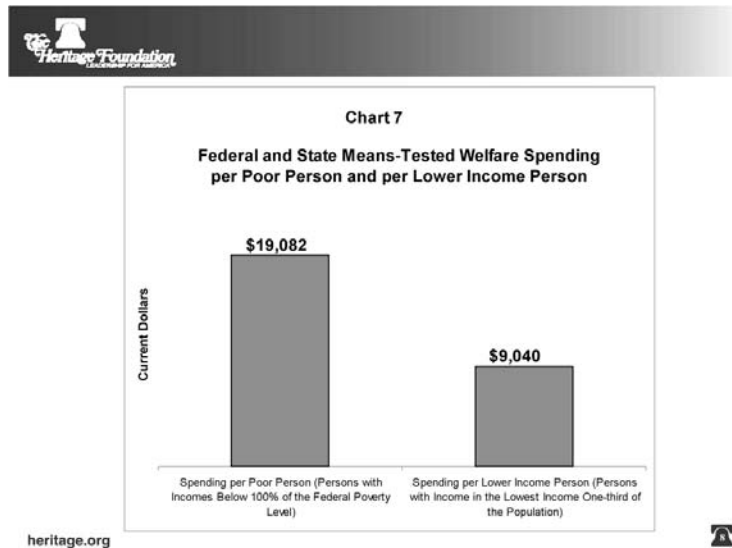
One way to understand this, how much is being spent, is if you took that \$927 billion and you converted it all into cash and you handed it out, you would have enough money there to raise the income of every family in the United States to 200 percent of the poverty level. That's \$44,000 a year. You could take every single low income family and raise their minimum of \$44,000 a year and still have about \$200 billion in spare change on the side. That is how much is being spent here, largely invisibly, largely without any acknowledgement, and when you try to talk about this, which is very important, you will immediately get caught in the briars nest of trying to talk about one program at a time. Well, let's talk about WIC. Let us talk about Section 8 housing.

The fact of the matter is that there is an enormous overlapping system of benefits with far more money going out the door than anyone knows. I would say before we permanently ratchet this spending up from 5 percent to 6 percent of GDP, which is what Obama is asking for, we ought to figure out where that money goes, because I do not know where this money goes nor does anyone else in this city. It goes out the door, but when you go to try to count it in the census and so forth, most of it disappears.

You guys are stuck with the game, and the game I call it that has been going on in this city for 40 years is you spend it and we in the welfare industry will not count it. All of our surveys and so forth, we will hide. We will not count this money as received by the poor. In fact, out of this \$900 billion in spending, only about 4 percent of this is routinely counted as income received by poor people. And then we say my goodness, poor people do not have any economic resources. You need to spend more money. It is a permanent con game on the American taxpayer. You have to have an honest accounting of how much money is going out the door. This is important spending. It does go, it does help people, but you have to have a real accurate understanding of how much you, in fact, are asking the taxpayers to pay in support.

Now, people would say under the Obama administration, this spending has been ratcheted up by 30 percent in three years. It is the largest increase ever in the U.S. welfare system, a huge, huge increase. And most people, when I talk to the press or to just ordinary people will say that sort of makes sense, okay? We are in the middle of a very severe recession. We need more spending. But the anticipation is that that spending will go back down after the recession ends. No way. You have not been in Washington very long if you think that is what is going to happen, okay?

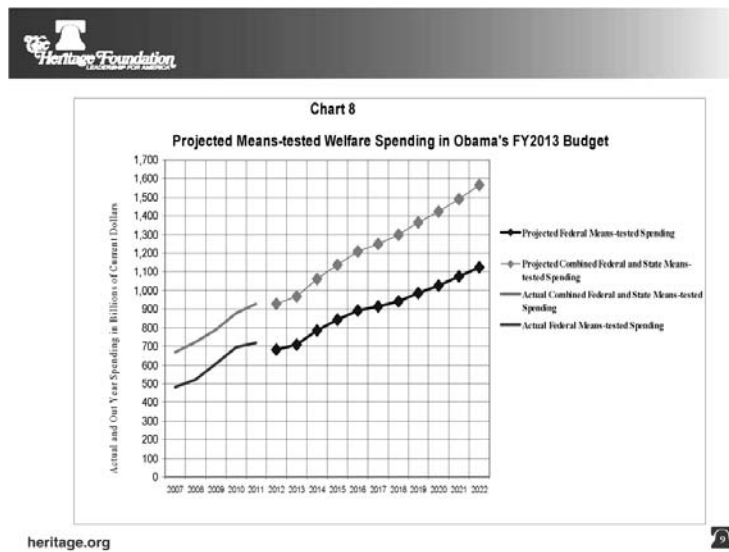
If you looked at that earlier chart and the one that Dr. Haskins had, this spending never goes down, okay?



Maybe three years out of 50 years does this spending ever go down. And if you look at Obama's 2013 budget, what he shows is that this spending pauses for one year, and then it starts to grow and grow and grow and grow very rapidly. It never goes back down. It will always remain above 6 percent of GDP, and by 2021, you are going to be spending \$1.5 trillion on means-tested welfare. And, again, do not ever expect to see any mainstream news story on this as this spending goes up year after year after year. The sto-

ries you will get is about some marginal cut in one of the programs or something like that because, basically, the left does not want to acknowledge how much we currently redistribute income. Not to say that these programs should be just slashed or abolished or that they do not help people, they do, but we have to be honest about the magnitude of help that we are giving and try to design these programs more accurately.

One other thing that is very important, I think, in the Obama budget, is to look at the relative priorities given to the means-tested welfare system and national defense. This is out years. The blue line in the Obama budget, that is national defense spending. The pink line is means-tested welfare.



And what you find historically is in the entire post-war period, defense spending always greatly outstripped welfare spending, and that was true up until 1993, which was the first year that welfare actually jumped above defense spending. But from 1993 through the present time, really we have spent about \$1.33 in welfare for every dollar that we were spending on national defense, not exactly a story you see in the press, either, but the Obama budget breaks that entirely. What Obama is saying is he is going to freeze national defense spending in nominal terms for a decade while he is going to increase means-tested welfare by about 70 percent during that same period.

So while the current ratio of means-tested welfare to defense is about \$1.30 to a dollar, Obama by 2021 is going to take that up to around \$2.40 of welfare for every dollar spent on national defense, a huge transformation in national priorities and national programming.

I think that it is clear that the deficits that are in the Obama budget are unsustainable and to a significant degree, although not entirely, those deficits are the result of these very rapid planned increases in the welfare state that are buried in that budget. I

think that what we need to do, among other things, is begin to get this welfare spending under control, not by severely cutting it, but by rolling the spending back to the levels that existed before the beginning of the current recession, adjusting for inflation, and then allow that spending to increase at the rate of inflation for the next 10 years.

We were already at record levels of spending in 2007 before the recession began. If this spending is a temporary response to the recession instead of a permanent increase in the welfare state, we ought to be able to go back to those levels. If we did that the savings for the federal government would be \$2.7 trillion over the next decade. That is how large this expenditure system is.

Again, I am not calling for massive cuts. I am calling for going back to the sort of system that we had before the planned expansions that Obama is seeking to put into the welfare system. Thank you.

[The prepared statement of Robert Rector follows:]

PREPARED STATEMENT OF ROBERT RECTOR, SENIOR RESEARCH FELLOW,
FAMILY & WELFARE STUDIES, THE HERITAGE FOUNDATION

My name is Robert Rector. I am a Senior Research Fellow at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

SUMMARY

The governmental safety net has three basic components: 1) Social Security and Medicare for the elderly; 2) unemployment insurance and worker's compensation; and 3) anti-poverty or means-tested welfare programs. My testimony will deal with the means-tested welfare system which could also be called comprehensive assistance to the poor.

The means-tested welfare system consists of 79 federal programs providing cash, food, housing, medical care, social services, training, and targeted education aid to poor and low income Americans. Means-tested welfare programs differ from general government programs in two ways. First, they provide aid exclusively to persons (or communities) with low incomes; second, individuals do not need to earn eligibility for benefits through prior fiscal contributions. Means-tested welfare therefore does not include Social Security, Medicare, Unemployment Insurance, or worker's compensation.

Although the public is aware that Social Security and Medicare are large expensive programs, few are aware that for every \$1.00 spent on these two program, government spends 76 cents on assistance to the poor or means-tested welfare.

In FY2011, federal spending on means-tested welfare came to \$717 billion. State contributions into federal programs added another \$201 billion, and independent state programs contributed around \$9 billion. Total spending from all sources reached \$927 billion.

About half of means-tested spending is for medical care. Roughly 40 percent goes to cash, food, and housing aid. The remaining 10 to 12 percent goes what might be called "enabling" programs, programs that are intended to help poor individuals become more self-sufficient. These programs include child development, job training, targeted federal education aid and a few other minor functions.

The total of \$927 billion per year in means-tested aid is an enormous sum of money. One way to think about this figure is that \$927 billion amounts to \$19,082 for each American defined as "poor" by the Census. However, since some means-tested assistance goes to individuals who are low income but not poor, a more meaningful figure is that total means-tested aid equals \$9,040 for each lower income American (i.e., persons in the lowest income third of the population).

If converted to cash, means-tested welfare spending is more than sufficient to bring the income of every lower income American to 200 percent of the federal poverty level, roughly \$44,000 per year for a family of four. (This calculation combines potential welfare aid with non-welfare income currently received by the poor.)

In the two decades before the current recession, means-tested welfare was the fastest growing component of government spending. It grew more rapidly than Social Security and Medicare and its rate of increase dwarfed that of public education and

national defense. While means-tested medical benefits have been the fastest growing part of the welfare system, most other forms of welfare aid have grown rapidly as well.

For example, spending on means-tested cash, food and housing has grown more rapidly than Social Security over the last two decades. Adjusting for inflation and population growth, the U.S. now spends 50% more on means-tested cash, food and housing than it did when Bill Clinton entered office on a promise to “end welfare as we know it”. It comes as a surprise to most to learn that the core welfare state has expanded dramatically since reform allegedly “ended welfare” in the mid 1990’s.

Total means-tested spending on cash, food and housing programs is now twice what would be needed to lift all Americans out of poverty. Why then does the government report that over 40 million persons live in poverty each year? The answer is that, in counting the number of poor Americans, Census ignores almost the entire welfare state: Census counts only a minute fraction of means-tested cash, food and housing aid as income for purposes of determining whether a family is poor.

Despite the fact that welfare spending was already at record levels when he took office, President Obama has increased federal means-tested welfare spending by more than a third. Some might think this is a reasonable, temporary response to the recession, but Obama seeks a permanent, not a temporary, increase in the size of the welfare state.

According to the President’s FY2013 budget plans, means-tested welfare will not decline as the recession ends but will continue to grow rapidly for the next decade. According to Obama’s budget, total annual means-tested spending will be permanently increased from five percent of GDP to six percent of GDP. Combined annual federal and state spending will reach \$1.56 trillion in 2022. Overall, President Obama plans to spend \$12.7 trillion on means-tested welfare over the next decade.

Obama’s budget plans call for ruinous and unsustainable budget deficits. These deficits are, in part, the result of dramatic, permanent increases in means-tested welfare. An important step in reducing future unsustainable federal deficits would be to return welfare spending to pre-recession levels.

To accomplish this, Congress should establish a cap on future welfare spending. When the current recession ends, or by 2013 at the latest, total federal means-tested welfare spending should be returned to pre-recession levels, adjusted for inflation. In subsequent years, aggregate federal welfare spending should grow no faster than inflation. This type of spending cap would save the taxpayers \$2.7 trillion dollars during its first decade. An aggregate welfare spending cap of this sort is contained in HR 1167, The Welfare Reform Act of 2011 introduced by Congressman Jim Jordan (R-OH).

THE HIDDEN WELFARE STATE

Most discussion of government spending and deficits assumes that the federal budget consists of four principal parts: entitlements (meaning Social Security and Medicare); defense; non-defense discretionary spending; and interest. This perspective is misleading because it ignores the hidden welfare state: a massive complex of 79 federal means-tested anti-poverty programs.

The public is almost totally unaware of the size and scope of government spending on the poor. This is because Congress and the mainstream media always discuss welfare in a fragmented, piecemeal basis. Each of the 79 programs is debated in isolation as if it were the only program affecting the poor. This piecemeal approach to welfare spending perpetuates the myth that spending on the poor is meager and grows little, if at all.

The piecemeal, fragmented character of the hidden welfare system makes rational policy-making and discussion impossible. Sound policies to aid the poor must be developed holistically, with decision makers and the public fully aware of the magnitude of overall spending.

UNDERSTANDING MEANS-TESTED WELFARE OR AID TO THE POOR

Means-tested welfare spending or aid to the poor consists of government programs that provide assistance deliberately and exclusively to poor and lower-income people.¹ By contrast, non-welfare programs provide benefits and services for the general population. For example, food stamps, public housing, Medicaid, and Temporary Assistance to Needy Families are means-tested aid programs that provide benefits only to poor and lower-income persons. On the other hand, Social Security, Medicare, po-

¹The only exception to this rule is a small number of means-tested programs that provide aid to low income communities rather than individuals.

lice protection, and public education are not means-tested; they provide services and benefits to persons at all income levels.

Means-tested programs are anti-poverty programs: they are intended to increase the living standards or improve the capacity for self-support among the poor and near-poor. Unlike many other government programs, means-tested welfare programs do not require a prior fiscal contribution to establish eligibility.

The size of the federal means-tested aid system is particularly large because it is funded not only with federal revenue but also with state funds contributed to federal programs. Ignoring these matching state payments into the federal welfare system results in a serious underestimation of spending on behalf of the poor. Prior to the current recession, one dollar in seven in total federal, state, and local government spending went to means-tested welfare.

79 ASSISTANCE PROGRAMS

The 79 means-tested programs operated by the federal government provide a wide variety of benefits. The federal welfare state includes:

- 12 programs providing food aid;
- 12 programs funding social services;
- 12 educational assistance programs;
- 11 housing assistance programs;
- 10 programs providing cash assistance;
- 9 vocational training programs;
- 7 medical assistance programs;
- 3 energy and utility assistance programs; and,
- 3 child care and child development programs.

Several programs provide more than one type of benefit. In addition there are a few independent state programs providing cash and medical aid. A full list of these programs is provided at the end of this testimony. (Note: Social Security, Medicare, veterans programs, unemployment insurance and workmen's compensation are not considered means-tested aid and are not included in this list, nor in the spending figures in this testimony.)

In FY2011, federal spending on means-tested welfare, plus state contributions to federal programs, reached \$927 billion per year. The federal share came to \$717 billion or 77 percent; state spending was \$210 billion or 23 percent. (See chart 1.)

In recent years, 49 percent of total means-tested spending went to medical care for poor and lower-income persons, and 39 percent was spent on cash, food, and housing aid. The remaining 12 percent was spent on social services, training, child development, targeted federal education aid, and community development for lower-income persons and communities. (See chart 2.)

MEANS-TESTED SPENDING BY RECIPIENT CATEGORY

Roughly half of means-tested spending goes to families with children, most of which are headed by single parents. Some 28 percent of spending goes to disabled persons. Another 14 percent goes to elderly persons. A final eight percent of spending goes able-bodied, non-elderly adults without children. (See chart 3.)

GROWTH OF THE WELFARE STATE

Welfare spending has grown enormously since President Lyndon B. Johnson launched the War on Poverty. After adjusting for inflation, welfare spending was 16 times greater in FY 2011 than it was when the War on Poverty started in 1964. (See charts 4 and 5.)

Means-tested welfare spending was 1.2 percent of the gross domestic product (GDP) when President Johnson began the War on Poverty. By the 1980's spending had risen to around 3.5 percent of GDP. During the first decade of the twenty first century, spending averaged slightly less than 5 percent of GDP. By 2011, spending had reached 6.1 percent of GDP. However, under Obama's budget plans spending will not decline as the current recession ends but will remain at 6 percent of GDP for the next decade. (See chart 6.)

WELFARE SPENDING: THE FASTEST GROWING COMPONENT OF GOVERNMENT SPENDING

For the past two decades, means-tested welfare or aid to the poor has been the fastest growing component of government spending, outstripping the combined growth of Medicare and Social Security spending, as well as the growth in education and defense spending. Over the 20-year period between FY 1989 and FY 2008, total means-tested spending increased by 292 percent over the period. The increase in

combined Social Security and Medicare spending was 213 percent over the same period.

Means-tested spending on cash, food, and housing increased more rapidly (196 percent) than Social Security (174 percent). The growth in means-tested medical spending (448 percent) exceeded the growth in Medicare (376 percent).² in means-tested aid greatly exceeded the growth in government spending on education (143 percent) and defense (126 percent).

TOTAL COST OF THE WAR ON POVERTY

Since the beginning of the War on Poverty, government has spent \$19.8 trillion (in inflation-adjusted 2011 dollars) on means-tested welfare. In comparison, the cost of all military wars in U.S. history from the Revolutionary War through the current war in Afghanistan has been \$6.98 trillion (in inflation-adjusted 2011 dollars).³ The War on Poverty has cost three times as much as all other wars combined.

MEANS-TESTED WELFARE SPENDING ON LOWER-INCOME PERSONS

With 79 overlapping means-tested programs serving different low-income populations, it is difficult to determine the average level of benefits received by low-income persons. One way of estimating average welfare benefits per recipient would be to divide total means-tested spending by the total number of poor persons in the United States. According to the Census Bureau, there were 46.2 million poor persons in the U.S. in 2010. Total means-tested spending in 2010 was \$881.2 billion. If this sum is divided by million poor persons (including residents in nursing homes), the result is \$19,082 in means-tested spending for each poor American.

However, this simple calculation can be misleading because many persons with incomes above the official poverty levels also receive means-tested aid. Although programs vary, most means-tested aid is targeted to persons in the lowest income third of the population. Thus, a more accurate sense of average total welfare spending per recipient can be obtained, if total welfare aid is divided among all persons within this larger group. Dividing total means-tested aid by all persons in the bottom third of the income distribution results in average welfare spending of \$9,040 per person in 2011, or around \$36,000 for a family of four. (See chart 7)

This is not precise estimate of benefits received. Rather, the calculation is intended to gauge spending relative to the potential population of beneficiaries. Benefits are not uniform: disabled and elderly persons receive substantially higher assistance than do other recipients.⁴ Despite these caveats, a simple fact remains: the ratio of welfare outlays relative to the population served is very high.

MEANS-TESTED SPENDING ON FAMILIES WITH CHILDREN

Another way of examining spending levels is to look at welfare spending on families with children. In FY 2011, total means-tested spending was \$927 billion. About half of this spending (\$462 billion) will go to families with children. (Around one-third of this spending went to medical care.)

If the \$462 billion in welfare spending were divided equally among the lowest income one third of families with children (around 14 million families), the result would be around \$33,000 per low income family with children.

In addition, most of these lower-income families have earned income. Average earnings within the whole group are typically about \$16,000 per year per family, though in the midst of a recession, earnings will be lower. If average welfare aid and average earnings are combined, the total resources is likely to come to between \$40,000 and \$46,000 for each lower-income family with children in the U.S. It is very difficult to reconcile this level of resources with conventional claims that millions of lower-income families are chronically hungry, malnourished, or ill-housed.

WELFARE SPENDING AND THE POVERTY GAP

The Census Bureau measures poverty in the U.S. by comparing a family's annual cash income with the federal poverty income threshold for a similar size family. The poverty income threshold for a family of four was roughly \$22,000 in 2010. If the family's cash income is less than the poverty income threshold then the family is deemed poor.

³Stephen Daggett, "Costs of Major U.S. Wars," Congressional Research Service, June 29, 2010. The CRS report counts the cost of wars through FY2010; the additional cost of the wars in Iraq and Afghanistan in FY2011, at \$159 billion, was added to the CRS figures.

⁴The per capita cost of medical care for elderly persons in nursing homes is particularly high; however, such spending is less than a tenth of overall means-tested spending, its exclusion would not greatly alter the figures in the text.

The poverty gap is a measure of the total amount of extra income needed to raise the incomes of all poor Americans up to the federal poverty income threshold. In other words, the poverty gap measures the extra economic resources needed to eliminate official poverty in the U.S. The pre-welfare poverty gap is the poverty gap if the current means-tested aid which Census reports as received by poor households is excluded from the initial count of income.

In 2010, the poverty gap for all households was \$152 billion. The pre-welfare poverty gap was \$173 billion. Total means-tested spending in that year was \$881 billion or five times the pre-welfare poverty gap. Means-tested cash, food and housing was \$339 billion or nearly twice what was needed to raise all families out of poverty.

The double poverty gap is the total amount of extra income needed to raise incomes of all low income households to twice the federal poverty income threshold. In 2010, twice the federal poverty income threshold for a family of four would be an income of around \$44,000 per year. The pre-welfare double poverty gap is the amount of income needed to raise all low income family's income to twice the federal poverty threshold if current welfare benefits counted as received by the family are excluded from the initial count of family income.

The pre-welfare double poverty gap for all households in 2010 was \$720 billion. By comparison, total means-tested spending was \$881 billion in 2010 and \$927 billion in 2011. If converted into cash, total welfare spending would be more than sufficient to raise the incomes of all U.S. households to twice the poverty level. This does not mean that restructuring benefits in this manner and converting all aid to cash would be an optimal policy, but it does illustrate the high level of resources that are currently allocated to assisting lower income persons.

WELFARE SPENDING INCREASES UNDER THE OBAMA ADMINISTRATION

Table 1 shows the growth in means-tested spending over recent years. In FY 2007, total government spending on means-tested welfare or aid to the poor was a record high \$657 billion. By fiscal year 2011, total government spending on means-tested aid had risen to \$927 billion, a forty percent increase.

TABLE 1.—GROWTH IN MEANS-TESTED SPENDING

[In billions]

	Federal spending	State spending	Total spending
FY 2007	\$468.7	\$189.2	\$657.9
FY 2008	\$522.3	\$191.6	\$714.1
FY 2009	\$612.7	\$167.2	\$779.9
FY 2010	\$695.3	\$192.7	\$888.0
FY 2011	\$717.1	\$210.1	\$927.2

President Obama's increase in federal means-tested welfare spending during his first two years in office was two and a half times greater than any previous increase in federal welfare spending in U.S. history, after adjusting for inflation.

OBAMA PLANS PERMANENT INCREASES IN WELFARE

Supporters of the President's spending might counter that these spending increases are merely temporary responses to the current recession. But that is not the case; most of Obama's spending increases are permanent expansions of the welfare state. According to the long-term spending plans set forth in Obama's FY 2013 budget, combined federal and state spending will not drop significantly after the recession ends. In fact, according to the President's own spending plans, by 2014, welfare spending exceeds one trillion per year. By 2022, total means-tested spending will reach \$1.57 trillion.⁵ (See chart 8.) Much of this increase in spending will be due to the increase in medical expenditures under Obamacare.

According to President Obama's budget projections, federal and state welfare spending will total \$12.8 trillion over 10 years (FY 2009 to FY 2018). This spending will cost over \$130,000 for each taxpaying household in the U.S.

⁵ Most future state welfare spending will occur in the Medicaid program. Outyear state Medicaid spending figures were obtained from the Department of Health and Human Services, 2010 Actuarial Report on the Financial Outlook for Medicaid, page 19. www.cms.gov/ActuarialStudies/downloads/MedicaidReport2010.pdf State Medicaid spending after 2019 was estimated based on the prior ratios of federal to state Medicaid spending. State means-tested spending for programs other than Medicaid is modest; outyear spending figures were estimated based on the required state contributions into a program relative to federal outlays.

SPENDING PRIORITIES: WELFARE AND DEFENSE

Throughout most of the post-war period, annual defense spending greatly exceeded means-tested welfare. In 1993 welfare spending exceeded defense spending for the first time since the great depression of the 1930's. In subsequent years the ratio of welfare to defense spending averaged about 1.33 to 1.00.

Obama's budget calls for jettisoning this pattern. Defense spending will decline in nominal dollars while means-tested welfare spending will increase 70 percent. By 2022, there will be \$2.33 in federal and state welfare spending for every one dollar spent on national defense. (See chart 9.)

CONCLUSION

Means-tested spending comprises a vast, hidden welfare state. The public is almost totally unaware of the size and scope of government spending on the poor. This is because Congress and the mainstream media always discuss welfare in a fragmented, piecemeal basis. Each of the 79 programs is debated in isolation as if it were the only program affecting the poor. This piecemeal approach to welfare spending perpetuates the myth that spending on the poor is meager and grows little, if at all.

The piecemeal, fragmented character of the hidden welfare system makes rational policy-making and discussion impossible. Sound policies to aid the poor must be developed holistically, with decision makers and the public fully aware of the magnitude of overall spending.

America faces a fiscal crisis. Obama's budget plans call for ruinous and unsustainable future budget deficits. These deficits are, in part, the result of dramatic, permanent increases in means-tested welfare. An important step in reducing future unsustainable federal deficits would be to return welfare spending to pre-recession levels. To accomplish this, Congress should establish a cap or limit on the future growth of total means-tested spending.

When the current recession ends, or by 2013 at the latest, total means-tested welfare spending should be returned to pre-recession levels, adjusted for inflation. In subsequent years, aggregate welfare spending should grow no faster than inflation. This type of spending cap would save the taxpayers over \$2.7 trillion dollars during its first decade. An aggregate welfare spending cap of this sort is contained in HR 1167, The Welfare Reform Act of 2011 introduced by Congressman Jim Jordan (R-OH).

Chairman RYAN. Thank you. Bob?

STATEMENT OF ROBERT GREENSTEIN

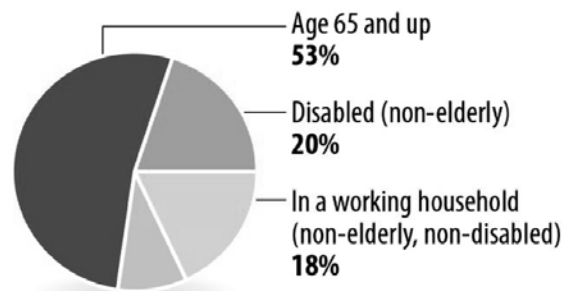
Mr. GREENSTEIN. Thank you, Mr. Chairman, for the opportunity to discuss these important issues. The leading research suggests that the safety net is actually functioning much better than is often recognized. A comprehensive review is conducted by some of the leading scholars in the field on the impact of the safety net, among other things, they looked at the impact of the safety net on the amount that people work and found that the impact was quite small and that after taking this behavioral effect into account, that the safety net cuts poverty about in half. They found that one in every seven Americans would be poor without the safety net but is lifted above the safety net by it.

Now, as we are hearing in this hearing and elsewhere, questions are raised about the safety nets impact on dependency, on the budget, and there are also issues about its impact on deep poverty. Let me briefly cover each of those in turn.

Over the past few decades, we have moved, as Ron Haskins indicated, very much toward a work-based safety net. Cash welfare assistance for families who do not work has diminished greatly. Support for the working poor has increased. The results are notable. Even though 2010 was a year with an unemployment rate of 9.6 percent, and could I have the first slide, please?

Nine-Tenths of Entitlement Benefit Spending Goes to the Elderly, Disabled, or Working Households

Share of entitlement benefits, 2010



Source: CBPP analysis of data from Office of Management and Budget, U.S. Departments of Agriculture, Health and Human Services, and Labor, and the U.S. Census Bureau.

1

In 2010, 91 percent of all spending on federal entitlement benefits went to people who either are not expected to work because they are elderly or disabled, or were members of households that did work. These data are consistent with the findings of the comprehensive review of the research I mentioned, which finds that today's much more work-based safety net does not have a large effect in reducing work effort.

The study reported, for example, that the research shows the effect of SNAPs, formerly called food stamps, on work, is quite small and that the impact on, of Medicaid on work appears to be minimal. This is in significant part of result of major changes in both programs from programs where you largely had to be on welfare to get the assistance to programs primarily for low-income working families who are not on welfare and where you do not have to be on welfare and can work at low wages and continue to get this support.

The findings on these programs differ significantly from the findings regarding the effect of the old welfare system on work prior to welfare reform. Concerns that the current safety net is leading millions to become dependent and cease working are simply not consistent with the research.

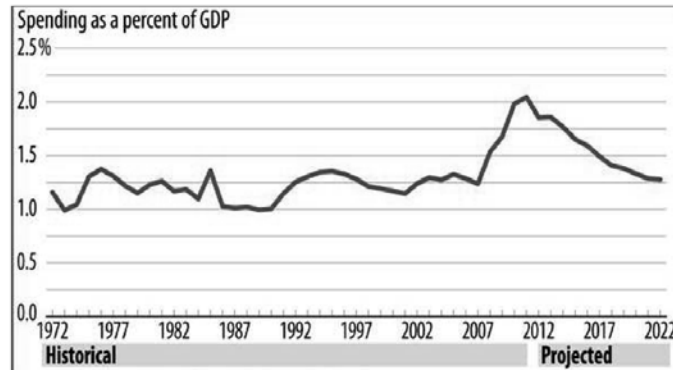
Let me turn to the budgetary issue, which the previous two members of the panel have talked a lot about. Now, we all know that Medicaid has been rising substantially in costs, and is projected to rise further. Health care costs are rising faster than GDP throughout the entire health care system, private sector, Medicare, and Medicaid. They have been for several decades, and the system-wide cost increases raise Medicaid costs with them, even though Medicaid costs less per beneficiary than private insurance. Medicaid pays providers less.

Medicaid costs also will rise further in coming years because of the aging of the population. Older people have much higher aver-

age health care costs than younger people do, and costs will rise also because of the coverage expansions in the Affordable Care Act. They do not add to the deficit in that their costs were offset by reductions in Medicare and increases in revenue, but they push up costs for means-tested programs.

Now, here is the key point. The figures that Ron Haskins and Robert Rector have just presented of the safety net exploding and cost are dominated by health care. They are largely a story of health care. Let us look at the data. What I suggest is for us to really dig in and understand what is going on, and that we take means-tested programs and we divide them into two categories: health care, and all of the rest. When we do that, here is what we find. Next slide, please.

Low-Income Entitlement Spending Outside Health Set to Fall Back to Prior 40-Year Average



We find that federal expenditures for all means-tested entitlements outside health care equaled 2 percent of GDP in 2011, and, to be sure, that is 50 percent higher for the average for the previous 40 years. However, the recent increases are largely driven by the economic downturn and temporary program expansions under the Recovery Act. The CBO projections show that expenditures for means-tested entitlements outside health care will decline as the economy recovers. They will fall to 1.3 percent of GDP, these are CBOs figures, by 2020 and thereafter.

In other words, by 2020, total means-tested entitlement expenditures outside health care will return all of the way to their prior 40 year average, the average for 1972 to 2011, and those figures do not include discretionary programs. Low-income discretionary programs are going to shrink because all non-defense discretionary shrinks under the Budget Control Act caps even if there is not a sequester that falls by 2021 to its lowest share of GDP since 1962.

So, total means-tested spending outside of health care is on track, under the CBO figures, to actually fall over the coming decade below its previous 40 year average.

What about Roberts figures on the Obama budget about how much means-tested spending goes up in coming years? That is an artifact of the expansions in the Affordable Care Act. Again, let us look at health care and the others separately. I would also note that when you look at how much the money is per poor person, you have to keep in account that over two-thirds of all Medicaid spending is for the elderly and disabled. Half of all nursing home expenditures in this country are paid for through Medicaid. You cannot take the big nursing home expenditures per person and somehow hand out as a per cash amount to a low income family with children.

Final issue, deep poverty: This is a matter of concern. The number of children living below half the poverty line increased by 650,000 between 1995 and 2005, even before the economy turned down, and these figures do count non-cash benefits, like food stamps and housing and so forth, and the earned income credit, as income.

So, basically what has happened is the changes brought by the 1996 welfare law, in combinations with expansions in the earned income credit, have pulled more single mother families into the labor market and raised many of their incomes. At the same time, the welfare changes also deepened poverty among another group of single mother families, primarily those with less education and skills and more physical, mental health, or other problems. Some of those families fell deeper into poverty as a result of having little, or nothing, from either earnings or cash assistance.

Basically, any intervention in any field of government or even health care, whatever, can hurt some people, help some people and hurt others. The evidence suggests that the changes under the welfare law did reduce the number of people below 100 percent of poverty, and, at the same time, increased the number people below 50 percent of poverty. Next slide, please

Number of U.S. Households Living Below World Bank Measure of Poverty in Developing Nations:

Living on Less Than \$2 a Day, Per Person

	Cash Income	Cash Income plus Food Stamps
1996	636,000 households with 1.4 million children	475,000 households
Start of 2011	1.46 million households with 2.8 million children	800,000 households

Source: Shaefer and Edin, "Extreme Poverty in the United States," 1996 to 2011.

This phenomenon is reflected in a recent study; it just came out about a month ago about by leading researchers that finds that the number of families and the number of children living below a standard that the World Bank uses to measure serious poverty in third-world countries living on less than \$2 per person per day has doubled since 1995. These findings are of particular concern in light of emerging research which shows that among low-income families, the level of income on a child as young affects school achievement and may well affect later employment and earnings as an adult.

I would note here in this vein that were it not for the SNAP program, the rise in deep poverty would be much greater. The data showed that SNAP cuts nearly in half the percentage of children living below that World Bank poverty standard and plays a very important role here. So, in conclusion, one thing all panel members agree on is that we are on an unsustainable fiscal course, but we also have levels of poverty and inequality that are higher than those in most western nations. The Bowles-Simpson Commission Report sought to balance both of those concerns. It adopted and emphasized as one of its core principles that deficit reduction should not increase poverty or harm the disadvantaged, and it did not call for reductions in any low income programs outside Medicaid.

Last year, a group of Christian leaders, ranging from the Catholic Bishops Conference and the Episcopal Church to the Salvation Army and the National Association of Evangelicals issued a call for policymakers to safeguard the poor in deficit reduction and draw a circle of protection, in other words, around programs targeted on them. So I will urge policymakers to seriously consider those principles as they face the tough decisions ahead. Thank you again for the opportunity to testify.

[The prepared statement of Robert Greenstein follows:]



820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

TESTIMONY OF ROBERT GREENSTEIN
President, Center on Budget and Policy Priorities
Before the House Budget Committee
Hearing on "Strengthening the Safety Net"
April 17, 2012

Thank you for the invitation to testify today. I am Bob Greenstein, head of the Center on Budget and Policy Priorities, a policy institute located here in Washington. I also served many years ago as Administrator of the Food and Nutrition Service at USDA, which operates SNAP (then called food stamps) and other domestic food assistance programs.

My testimony covers several related issues: a look at the functioning of the safety net as a whole; a more intensive focus on Medicaid and SNAP; and a discussion of changes in welfare over the past 15 years and their implications.

I. The Safety Net

The safety net is far from perfect and contains areas that merit strengthening. Yet as a result of a series of mostly bipartisan decisions over several decades, it is functioning far better than is often understood.

Let's start with its effect on poverty. Analysts across the political spectrum agree that to measure the safety net's impact on poverty, one cannot use the "official" measure of poverty — which completely ignores SNAP (formerly known as the food stamp program), the Earned Income Tax Credit, rental subsidies, and the like and also fails to adjust for taxes that are withheld from paychecks and that families thus can't spend. If one tries to examine poverty trends over the past half century using the "official" measure, serious distortion occurs — the sharp decline in cash welfare assistance pushes poverty rates up, while the expansions (compared to the 1960s, 1970s, or 1980s) in food stamps and the EITC are ignored. This makes it look like no progress on poverty occurred because those safety net measures that contracted are *counted* in the official poverty measure while those that expanded are *not*. This distortion is one of the reasons that analysts prefer the broader measure.

In the mid-1990s, a National Academy of Sciences' expert panel recommended use of such a broader measure of poverty, and the Census Bureau issues several alternative, broad poverty measures. Under the measure most closely resembling the NAS recommendation, the poverty rate stood at 15.5 percent in 2010. Yet under the same measure, the poverty rate *without* the safety net — that is, the poverty rate based on household incomes *before* government assistance is counted — was 29 percent. In other words, the safety net cut poverty nearly in half compared to what it otherwise would be.

To be sure, without the programs, some people might have worked more in 2010 (although it is hard to see where the additional jobs would have come from given the depressed labor market). The impact of the safety net on poverty has been studied extensively, however, and the finding cited above about the safety net's impact in reducing poverty is strongly corroborated by a comprehensive review and synthesis of the research literature on the effects of the safety net on poverty conducted recently by some of the field's leading scholars and published by the National Bureau of Economic Research. In this study, the scholars examined the impact of the safety net on the amount that people work, and found the safety net's overall impact on work to be small. They also found that, after taking this behavioral effect into account, the safety net lowers the poverty rate by

approximately 14 percentage points. In other words, one of every seven Americans would be poor without the safety net, but is above the poverty line because of it.¹

One also can look at the Census data on how many people individual programs lift out of poverty. In 2010, for example, the Earned Income Tax Credit and the Child Tax Credit lifted about 9 million people in low-income working families above the poverty line, including 5 million children. SNAP lifted about 4 million out of poverty.

Among the most striking figures are those that track poverty rates over the last few years. Given the depth and severity of the economic downturn (sometimes called the Great Recession), one would have expected poverty to have soared. It didn't. The Census Bureau's broad poverty measures show relatively modest increases in poverty, which stands in sharp contrast to the deep plunge in the economy and the doubling of the unemployment rate. (The Census measure most closely based on the National Academy of Sciences' recommendations showed a poverty rate of 15.3 percent in 2007, 15.7 percent in 2009, and 15.5 percent in 2010. Other broad measures of poverty showed somewhat more of an increase but one that still is modest given the economy's marked downturn.)

Why didn't poverty rise more as unemployment spiraled upward? The answer shows up in the data. The "automatic stabilizer" response of programs like SNAP and unemployment insurance, supplemented by the temporary increases in assistance in various safety net programs that were provided under the Recovery Act, counteracted most of the increase in poverty that would otherwise have occurred. This is a substantial accomplishment, and one that speaks well for our nation.

Issues Related to the Safety Net and Criticisms of It

Questions raised about the safety net include its impact on dependency, the degree to which dollars go for administrative costs rather than benefits or services, and its effect on the long-term fiscal problem. Another issue concerns its effect on *deep* poverty — people with incomes below half of the poverty line. Let me examine each of these issues in turn.

Over the past several decades, we have moved heavily toward what analysts call a "work-based safety net." Cash welfare assistance for families without earnings has diminished greatly, while support for the working poor and near poor through the EITC, the Child Tax Credit, Medicaid, and SNAP has grown. The results are notable. Even though 2010 was a year of economic distress, with an average unemployment rate of 9.6 percent, it was marked by the following results:

- Some 91 percent of all spending in 2010 on federal entitlement benefits went to people who either are not expected to work because they are 65 or older or disabled, or were members of working households (with work defined as a household with a member who worked more than 1,000 hours during the year).²

¹ Yonatan Ben-Shalom, Robert A. Moffitt, and John Kadi Scholz "An Assessment of the Effectiveness of Anti-Poverty Programs in the United States," NBER Working Paper 17042, May 2011.

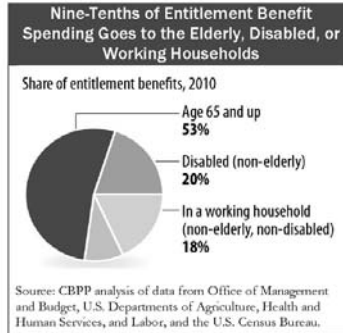
² If the universe of programs examined is broadened to include major low-income assistance programs that are *not* entitlements — low-income housing assistance, WIC, and low-income energy assistance — the figure remains essentially unchanged: 90 percent of benefit expenditures go to people who are elderly, disabled, or members of working

- Moreover, seven of the other nine percentage points of entitlement benefits went for unemployment insurance that people typically must have a significant work history to qualify for, Social Security survivor benefits for widows and orphans of deceased workers, Social Security benefits for retirees aged 62-64, or medical care.

These data are consistent with the findings of the NBER study cited above that presents a comprehensive review of the research literature and finds that today's more work-based safety net does not have a large effect on work effort. It also is worth noting that the study reported that the research literature shows that the effects of SNAP on work effect and earnings are "small" and often statistically insignificant, and the effects of Medicaid on work "appear to be minimal." (The findings on these programs differ significantly from the findings regarding the old welfare program prior to welfare reform.) Some studies also find *increases* in work effort when eligibility for programs such as Medicaid is extended to children or adults in low-income working families so families don't need to be *non-workers* receiving cash welfare assistance to qualify. These findings demonstrate, contrary to popular impression, how strongly intertwined the safety net has become with work, as well the important role it plays in providing help when the economy falters and jobs are scarce.

In other words, concerns that the safety net is leading millions to become dependent and cease working are not borne out by the research. (Nevertheless, we should explore ways to encourage more people nearing retirement age to work longer. The challenge there is to find ways to do so without impoverishing people in that age bracket who cannot work or cannot find a job because of their occupational background and skills or due to health reasons.)

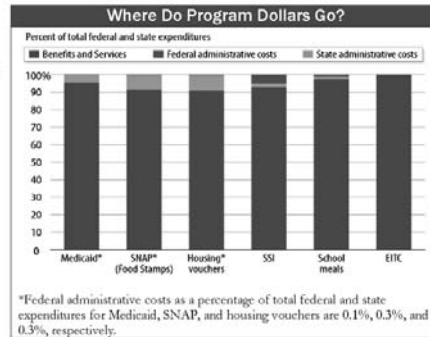
A second question regarding the safety net regards the ratio of benefits and services to administrative costs. Some administrative costs are necessary in any program to assure program integrity (i.e., that the people served are truly eligible and that appropriate amounts are paid). Here, too, the safety net performs well. A recent examination of six major means-tested programs — Medicaid, SNAP, SSI, section 8 housing vouchers, school meals programs, and the EITC — finds that in each of these programs, between 90 percent and 99 percent of expenditures go for benefits or services that reach the intended beneficiaries. Federal and state administrative costs combined account for only 1 percent to 10 percent of program costs, with most of the administrative costs occurring at the state level.³



households. Even if one looks solely at means-tested entitlement programs, the figure is still high, at 83 percent, meaning that even in a severe recession year, five of every six benefit dollars in means-tested entitlement programs went to people who were elderly, disabled, or members of working households.

³ Center on Budget and Policy Priorities, January 23, 2012.

A third issue — and a particularly important one in the current budgetary context — involves the safety net's cost trajectory. The nation faces a serious long-term fiscal problem, as a result of a large projected imbalance between revenues and expenditures. Under current policies, expenditures will climb as a percentage of GDP, while revenues remain at levels that are low relative to need, given the aging of the population and continuing increases in health care costs throughout the health care system.



This raises an important question: will means-tested programs rise in cost as a share of GDP and thereby contribute to our long-term fiscal problems?

As is well known, Medicaid is projected to rise in cost, for several reasons. Health care costs throughout the entire U.S. health care system — in both the public and private sectors — have been growing faster than GDP for several decades. Medicaid isn't the *cause* of this systemwide cost growth, and over the past decade, Medicaid costs per beneficiary have been rising *more slowly* than per-beneficiary cost under private insurance. Furthermore, Medicaid costs per beneficiary (adjusted for differences in health status) are substantially lower than those under private insurance because Medicaid pays providers lower rates and has lower administrative costs. But systemwide health care costs increases, driven in part by medical advances that improve health and lengthen life but add to costs, will push up health care costs across the board.

A second reason that Medicaid costs will rise is the aging of the population. Older people have much higher average health care costs than younger people do. Elderly and disabled beneficiaries account for 25 percent of Medicaid beneficiaries today but 68 percent of program costs. As the population ages, the number and share of beneficiaries who are elderly will rise, increasing program costs.

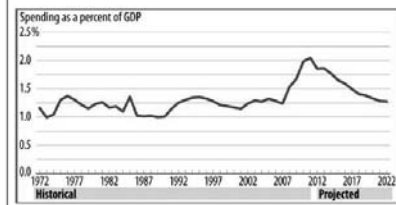
Yet another reason that Medicaid costs will rise is the continued erosion of employer-based health coverage. Over time, fewer low-income people are able to get coverage through their (or a family member's) employer, causing more of them to turn for coverage to Medicaid.

Finally, the coverage expansions in the Affordable Care Act — both in Medicaid and for subsidies to help near-poor and many middle-income families afford coverage in the new health insurance exchanges — will raise expenditures for means-tested health care expenditures, even though CBO projects that these expenditure increases will not add to deficits (because the costs are offset under the Affordable Care Act primarily through savings in Medicare and new revenues).

For these reasons, if one looks at total means-tested program costs, they appear to remain high in the years to come. But if one examines costs for means-tested program other than health care programs, the picture changes dramatically. *Means-tested programs outside of health insurance will decline in cost as the economy recovers and are not projected to rise in future decades as a percentage of GDP.* Here are the data, all of which come from the official historical tables on federal budget expenditures and CBO's projections of future expenditures.

- In fiscal year 2011, total federal expenditures for means-tested entitlement (or mandatory) programs outside health care programs equaled 2.0 percent of GDP. This was about 50 percent higher than the average for the prior 40 years — which was 1.3 percent of GDP. The costs of these programs have risen significantly in the last few years.⁴
- But the recent increases are largely driven by the economic downturn and temporary program expansions under ARRA. The CBO projections show that total expenditures for means-tested entitlements outside health care will decline steadily as a share of the economy as the economy recovers, falling to 1.3 percent of GDP by 2020 and thereafter. (These figures do not assume sequestration.)
- In other words, by 2020, total means-tested entitlement expenditures outside health care, measured as a share of GDP — including expenditures for SNAP, the EITC, and the other programs — *will return all of the way to their prior 40-year average.*

Low-Income Entitlement Spending Outside Health Set to Fall Back to Prior 40-Year Average



Sources: OMB through 2011; CBPP analysis of CBO data thereafter.

These figures do not include low-income *discretionary* programs. Under the Budget Control Act's caps, non-defense discretionary spending will fall over the decade to its lowest level as a share of GDP since 1962 (and probably since 1931). As a result, some decline in low-income discretionary programs appears inevitable. Thus, total expenditures on low-income (or means-tested) programs outside health care — including low-income discretionary programs — are expected to decline over the coming decade to a level *below* their average over the prior 40-year period. As a result, this part of the budget isn't contributing to the long-term fiscal problem.

⁴ Means-tested mandatory health care programs include Medicaid, CHIP, and subsidies for the purchase of health insurance under the Affordable Care Act (along with a few very small programs such as mandatory supplements to a few areas of discretionary health funding).

Increases in SNAP Costs

There has been particular misunderstanding of what has happened with expenditures for SNAP and the reasons for that. SNAP costs have grown substantially over the past decade — by more than can be explained just by the economic downturn. This has led some to assume that eligibility expansions are largely responsible and that as a result, SNAP expenditures and participation will continue to grow. Careful analysis indicates, however, that both such assumptions are incorrect.

As in many other areas of budgetary analysis, the year picked as a “starting point” for an analysis matters. For SNAP, choosing a starting point that only looks back ten years provides a somewhat distorted picture of program growth. This is because SNAP participation and costs had plummeted at that point, in part due to a large *decrease* in the proportion of eligible families receiving SNAP. The 1996 welfare law was intended to encourage work, but due to problems in state administrative systems in the first years of the welfare law, many families moving from welfare to working-poor status were cut off SNAP when they left welfare, even though they remained eligible for SNAP.

This was a result contrary to what Congress intended. Aggravating this problem, some states instituted administrative practices in those years that had the unintended effect of making it harder for many working-poor parents to participate (largely by forcing them to take too much time off from work for repeated visits to SNAP offices at frequent intervals, such as every 90 days, to reapply for benefits). This prompted many analysts, like my fellow panelist today Ron Haskins, to call for reforms that would improve access to SNAP for low-income working families and led both the Clinton and Bush administrations to act to address this problem. There was bipartisan consensus that having a policy where you needed to be on welfare to readily receive food stamps, and encountered difficulty receiving food stamps if you left welfare and worked for low wages, would reduce work incentives and was contrary to welfare reform goals. Congress enacted significant, although relatively modest, changes in 2002 and 2008 to lessen barriers to SNAP participation among the working poor, as well as modest improvements in benefits that largely helped low-wage workers and their families.

My point here is that there are three main reasons for the large increase over the past decade in SNAP expenditures and cost — the economy, the temporary increase in SNAP benefits enacted as part of the Recovery Act, and a large increase relative to ten years ago in the percentage of individuals eligible for food stamps that actually receive them. This percentage fell from 75 percent in 1994 to 54 percent in 2002, but is back to 72 percent today.⁵ Of particular note, the percentage of eligible individuals in low-income *working* families receiving SNAP has been rising steadily from 43 percent in 2002, to about 60 percent in 2009, the highest percentage on record.

The temporary SNAP benefit increase also has had a large effect, accounting for more than 25 percent of the growth in the program between 2007 and 2011. It expires in November 2013.

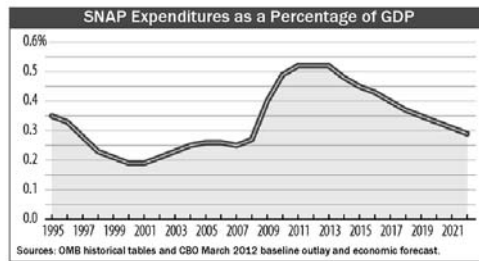
These three factors dwarf the impact of eligibility changes. For example, CBO estimates that what is referred to as “broad categorical eligibility” accounts for less than 2 percent of SNAP costs.

What lies ahead with regard to SNAP costs? Consistent with past experience, SNAP caseloads and expenditures will decline as unemployment and poverty fall. The SNAP “participation rate” —

⁵ The most recent year for which USDA publishes estimates is 2009.

the percentage of eligible households that receive benefits — will likely decline some as well. The research literature shows that the percentage of eligible households who actually apply for and receive SNAP benefits is greater when the benefits are larger and lower when the benefits are smaller. The temporary increase in the SNAP benefit level enacted as part of ARRA has almost certainly increased the SNAP participation rate, and after the temporary increase ends in October 2013, the participation rate is likely to decline.

Where all this leads is depicted in the graph below. The graph shows actual SNAP costs, as a share of GDP, from 1995 to the present, along with CBO's projection of costs as a percentage of GDP through 2022. As the graph indicates, by 2018, costs are expected to decline all of the way back to their 1995 level as a percentage of GDP, and then to edge below that.



A Bleaker Part of the Story

I conclude this part of my testimony with a troubling set of data that are a source of serious concern — data on *deep* poverty, particularly among children.

Using Census data and counting non-cash benefits as income as most analysts favor, the number (and percentage) of children living below *half* of the poverty line increased by 650,000 between 1995 and 2005, even before the economy turned down.⁶ The welfare law has played a significant role here. On the one hand, changes wrought by the 1996 welfare law, in combination with expansions in the EITC and, in the late 1990s, a very strong labor market, pulled more single-mother families into the labor market and raised many of their incomes. On the other hand, the welfare changes also deepened poverty among another group of single-mother families — including some mothers with less education and skills and more physical, mental health, or other problems. A number of families were lifted out of poverty by increased earnings supplemented by the EITC. But some

⁶ In this measure, non-cash benefits are counted (and taxes subtracted), consistent with the broad measures of poverty. Benefits from TANF, SSI, and SNAP are counted using the HHS/Urban Institute TRIM model in order to adjust for underreporting of benefits in the Census data. If one uses a poverty definition in line with the poverty measurement recommendations of the National Academy of Sciences such as subtracting work expenses and employing a modestly updated poverty line, the estimated number of children in deep poverty rises further, to over 1 million between 1995 and 2005. See Arloc Sherman, "Safety Net Effective At Fighting Poverty But Has Weakened For The Very Poorest," Center on Budget and Policy Priorities, July 2009, at www.cbpp.org/files/7-6-09pov.pdf.

other families fell deeper into poverty as a result of having neither earnings nor cash assistance (or earnings that were more than offset by the loss of cash assistance).

That this was the primary cause of the increase in deep poverty is seen in the data. In 1995, cash assistance provided by the old AFDC program lifted 2.2 million children out of deep poverty (i.e., lifted them above 50 percent of the poverty line). It raised 62 percent of the children who otherwise would have been *below* half of the poverty line *above* that level. By 2005, cash assistance provided under the TANF block grant lifted only 650,000 children above half of the poverty level, or just 21 percent of those who otherwise would be in deep poverty.

The same phenomenon is reflected in a recent study by poverty researchers that finds that both the number of families and the number of children who live below a standard that the World Bank uses to measure serious poverty in third-world countries — living on less than \$2 per person per day — has *doubled* since 1995.⁷

These findings are of particular concern, especially in light of emerging research which shows that among low-income families, the level of family income when a child is young affects his or her school achievement and may well influence later employment and earnings as an adult. Research finds, for example, that for a child up to age 5, an additional \$3,000 in annual family income — whether in earnings or unearned income like government benefits — is associated with a substantial increase in earnings in adulthood (the leading study finds a 17 percent increase in earnings in adulthood and an average of 135 hours of additional work per year.⁸) Allowing more young children to grow up in deep poverty not only causes immediate hardship but appears also to have long-term adverse effects on earnings and employment when the children grow up.

The research literature also shows that programs lifting the incomes of young children's families can boost children's achievement in school. Gordon Berlin, president of MDRC, the leader in evaluation of welfare-to-work programs, has reported that "We have reliable evidence involving thousands of families in multiple studies demonstrating that 'making work pay' [through assistance that supplements low earnings] causes improvements in young children's school performance." Researchers Greg Duncan and Katherine Magnuson report beneficial effects on young children in low-income families from increases in family income, whether the increase comes from earnings or other sources such as government assistance. These findings underscore the importance of programs such as SNAP, the EITC, and the Child Tax Credit as work supports.

Number of U.S. Households Living Below World Bank Measure of Poverty in Developing Nations: Living on Less Than \$2 a Day, Per Person		
	Cash Income	Cash Income plus Food Stamps
1996	636,000 households with 1.4 million children	475,000 households
Start of 2011	1.46 million households with 2.8 million children	800,000 households

Source: Shaefer and Edin, "Extreme Poverty in the United States," 1996 to 2011.

⁷ H. Luke Shaefer and Kathryn Edin, "Extreme Poverty in the United States, 1996 to 2011," National Poverty Center, 2012, at http://npc.umich.edu/publications/policy_briefs/brief28/

⁸ Greg J. Duncan and Katherine Magnuson, "The Long Reach of Early Childhood Poverty," *Pathways*, Winter 2011.

It bears noting that were it not for the SNAP program, the rise in severe poverty would be substantially worse. The data show that SNAP cuts nearly in half the percentage of children living below the World Bank poverty standard (i.e., living on less than \$2 per day). In 1996, a number of the Republican members of the Ways and Means Committee responded to criticisms that the welfare reform legislation would severely harm poor children in part by noting that food stamps would remain as a floor under poor children. The importance of retaining the SNAP program structure alongside the TANF block grant cannot be overstated.

II. Low-Income Programs, the Budget, and Medicaid and SNAP

The nation is on an unsustainable fiscal course. But we also have levels of poverty and inequality significantly higher than those in most other western industrialized nations. Furthermore, poverty — and especially deep poverty — among children may have negative long-term effects on the economy as well as on the children themselves.

The report issued in late 2010 by Erskine Bowles, Alan Simpson, and a majority of Bowles-Simpson commission members emphasized, as one of its core or guiding principles, that deficit reduction should not increase poverty or harm the disadvantaged. Their report did not call for reductions in any low-income program outside Medicaid. Last year, a group of Christian leaders ranging from the Catholic Bishops' Conference and the Episcopal Church to the Salvation Army and the National Association of Evangelicals issued a call for policymakers to safeguard the poor in deficit reduction and to draw a "circle of protection" around programs targeted on them.

I would urge policymakers to seriously consider these principles. In this spirit, I would like to discuss two proposals that I believe would cause substantial harm — the proposal to block-grant Medicaid and cut its funding severely, and the proposal to do the same with regard to the SNAP program.

Medicaid

The Medicaid proposal reflected in the budget resolution the House adopted last month would reduce federal Medicaid funding by 34 percent by 2022, and based on CBO analysis of a similar proposal in last year's House budget, by nearly 50 percent by around 2030. (These reductions would be in addition to the effect on Medicaid of repealing the health reform law.) The depth of the cuts would grow larger each year because funding would no longer keep pace with health care costs or with Medicaid enrollment growth as the population ages and employer-based health coverage continues to erode.⁹

Could cuts of this magnitude be absorbed through state efficiencies without harming low-income children, parents, and elderly and disabled people? The answer is almost certainly no.

⁹ The annual block grant amounts would rise only with general inflation and the percentage increase in the size of the overall U.S. population — factors that do not take into account that health care costs rise faster than general inflation or that the aging of the population will cause the elderly component of the Medicaid program, which has much higher per-beneficiary health costs, to rise more swiftly than the rate of overall U.S. population growth. As a result, we estimate that the annual block-grant funding amounts would rise at an annual rate at least 3.5 percentage points lower than the growth rate currently projected for Medicaid (excluding the effects of the Affordable Care Act). The proposed funding structure also does not take into account that erosion of employer-based coverage also causes Medicaid enrollment to grow over time.

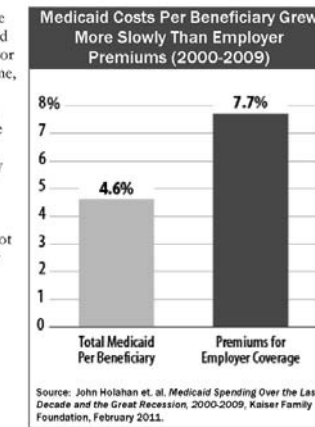
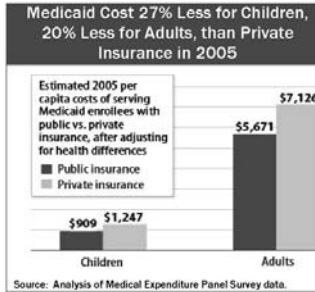
Medicaid already is considerably more efficient and less costly than private health insurance, primarily because it pays providers less (and also has lower administrative costs). As the graph below shows, Medicaid costs per enrollee are well below those for private insurance. In addition, Medicaid costs per beneficiary have been rising more slowly in recent years than private-sector health costs have.

Moreover, state Medicaid programs already seek out savings. Most states already contracts with private managed-care companies to operate their Medicaid programs for parents and children.

Is Medicaid coverage overly broad so that large savings could be obtained? That is hardly the case. Today, a working-poor parent loses Medicaid eligibility in the typical (or median) state when his or her income reaches just *63 percent* of the poverty line, or \$12,027 for a family of three — which is well below full-time minimum wage earnings. And an *unemployed* parent loses eligibility in the typical state when her income reaches just *37 percent* of the poverty line. In addition, most states cover elderly and disabled people only up to a level between about 75 percent and 100 percent of the poverty line, and in most states, adults who aren't raising minor children and aren't elderly or disabled are not eligible for Medicaid at all, regardless of how poor they are.¹⁰

This is the program from which a cut of about one-third by the tenth year, and one-half by the twentieth year, would be extracted. The effects would be substantial, as leading non-partisan institutes have concluded.

In its analysis of the Medicaid proposal in the House budget, the Congressional Budget Office wrote that “the magnitude of the reduction in spending...means that states would need to increase their spending on those programs, make considerable cutbacks in them, or both. Cutbacks might involve reduced eligibility for Medicaid and CHIP, coverage of fewer [health] services, lower payments to providers, or increased cost-sharing by beneficiaries — all of which would reduce



¹⁰ This would change under the Affordable Care Act, which would extend medical coverage to all non-elderly individuals with incomes below 133 percent of the poverty line.

access to care¹¹.¹² In other words, unless states came up with rather massive new sums to offset the very large losses in federal funding, they would be compelled to institute deep cuts that would harm low-income families and individuals.

In addition, the Urban Institute analyzed the effects of the very similar Medicaid proposal in last year's House budget. Urban Institute researchers examined a range of scenarios, in which they assumed various levels of savings through state actions to save money without casting low-income people off the program. The researchers estimated that under the most optimistic scenario (which assumed states could somehow reduce growth in Medicaid expenditure costs per beneficiary all the way to the rate of per-capita GDP growth), 14 million low-income people who otherwise would have Medicaid coverage would be made ineligible for it by 2021. The researchers also estimated that if states protected the elderly and people with disabilities, the enrollment of children and adults would drop by 27 million. (The decline would be greater because elderly and disabled beneficiaries have higher health care costs and are thus more costly to insure.) Most of those who would lose coverage would be expected to become uninsured.

The Urban Institute researchers estimated that provider reimbursements would be cut sharply as well; the researchers' best estimate was cuts in the range of 30 percent. These cuts would be made to provider payment rates that already are significantly below the reimbursement rates in Medicare and private insurance (and that have already been cut in recent years by states coping with budget shortfalls). Provider cuts of that magnitude would almost certainly cause the withdrawal of many providers from Medicaid and thereby reduce access to care for those low-income people whom Medicaid still covered.

Grim as these figures are, they *understate* the likely effects in years when the economy weakened, unemployment and poverty mounted, and more people lost employer-based health coverage along with their jobs. The Urban Institute has estimated that a one-percentage point increase in unemployment results in 1 million more low-income children and non-elderly adults receiving Medicaid (and CHIP) coverage; Medicaid responds automatically when this occurs. Under a block grant, however, it no longer would; as a result, in recessions, the ranks of the uninsured would swell. And states would be in no position to fill the gap, as their tax revenues fall in recessions.

A block grant also would fail to allocate resources equitably across states when state economies grow or contract at different rates, when the share of the population that is elderly increases at different rates, or when employer-based coverage erodes at a different pace. The states where need increased more rapidly would be placed at a particular disadvantage.

A block grant also would fail to respond automatically to unanticipated costs resulting from the onset of an epidemic (such as a severe flu epidemic), the onset of new diseases (as was the case with HIV-AIDS), or medical breakthroughs that improve health and save lives but at considerable cost. Suppose a major breakthrough related to cancers, Parkinson's, Alzheimer's, diabetes or other diseases is found, but use of the breakthrough technologies or drugs raises costs? Under a block grant, state Medicaid programs would have grave difficulty responding.

¹¹ CBO, "The Long-Term Budgetary Impact of Paths for Federal Revenues and Spending Specified by Chairman Ryan," March 2012.

This is why the proposal would almost surely lead ours to become more of a two-tiered health system, where those with low incomes are denied access to various health services and medical advances while more affluent Americans receive them. David Walker, then the Comptroller General of the United States, noted several years ago that “Medicare and Medicaid cannot grow over the long term at a slower rate than cost in the rest of the health care system without resulting in a two-tier health care system.” The block grant proposal overlooks this crucial point.

SNAP (Food Stamps)

The SNAP program has a number of attributes. It is well targeted: 98 to 99 percent of SNAP households have disposable income (or “net income”) below 100 percent of the poverty line.¹² And, over the past decade, SNAP has become an important work support for households with low wages.

Even in 2010, when the unemployment rate was 9.6 percent and jobs were hard to find, the majority of SNAP households that contained a non-disabled working-age adult were *working* households. Indeed, the number of low-income working households on SNAP has nearly tripled over the past decade, reflecting both a substantial increase in the percentage of eligible low-income working households that actually receive SNAP benefits and some wage erosion at the low end of the wage scale, which makes more working households eligible for SNAP. The data also show that the majority of non-disabled working-aged adults receiving SNAP at any time who are *not* currently working are people who worked in the prior year or will work in the following year.

The evidence does not support the notion that SNAP suppresses work effort. As noted earlier, the leading review of the research in the field finds little evidence that SNAP reduces work effort. I would also note that among SNAP households that worked in the year before they began to receive SNAP, only 4 percent did not work in the following year. This suggests that turning to SNAP when families face hard times does not lead them to cease working.

Moreover, SNAP has rather strong work requirements. For childless adults, in fact, they are the toughest work requirements of any federal program. People aged 18 to 50 who are not raising minor children may receive SNAP benefits for only *three months* (while they are not employed at least half time) out of every *three years*, even if they have looked diligently for work but can’t find it. (This is a provision of the 1996 welfare law that President Clinton thought was harsh and inequitable and sought unsuccessfully to change).

I should also note that SNAP work rules and requirements complement those in TANF. The 1996 welfare law gave states options to impose tough SNAP sanctions on TANF households who fail to comply with work or other TANF behavioral requirements — including the termination of all SNAP benefits for the entire family. States use this flexibility to design and augment the force of their TANF work and behavioral requirements. States also operate SNAP employment and training programs for SNAP participants who are not subject to work requirements in TANF or other programs, and states can and do impose SNAP benefit sanctions on participants who fail to comply with those work requirements.

¹² Moreover, 93 percent of benefits go to households with *gross* incomes below the poverty line, and two-fifths of SNAP households have gross incomes below *half* of the poverty line.

The SNAP program does have a weakness in this area: due to limited funding, the SNAP employment and training program is able to provide work, workfare, or training slots for only a relatively modest portion of SNAP recipients who lack employment and aren't enrolled in, or subject to, another work program or set of work requirements such as under TANF. Under the proposed SNAP block grant, this problem could become more acute, because of the large drop in overall funding for the program.

This brings me to the proposal in the House budget to convert SNAP to a block grant and cut it at least \$133.5 billion over ten years. This proposal is a source of great concern.

SNAP funds go overwhelmingly for food purchases — nearly 95 percent of federal SNAP expenditures do directly for benefits to recipients. Most of the remainder goes to determine eligibility, administer the work requirements and work programs, and approve and monitor compliance by retail food stores — costs that would largely remain under a block-grant. The math here is inexorable — the only way to secure savings of this magnitude would be to cut eligibility, benefit levels, or both.

If the savings were to come entirely from eliminating eligibility for currently eligible households, more than 8 million people would need to be cut adrift from the program if the cuts began taking effect in 2013. (If the cuts did not begin until 2016, the year in which the House budget envisions converting SNAP to a block grant, an average of almost 10 million people would have to be cut from the program in the years from 2016 through 2022 to achieve the required savings.) States would likely cut, at least in substantial part, by lowering income (and possibly asset) limits, which would primarily remove low-income working families from the program. A program structure that provides SNAP to families on public assistance — but denies it to many who work for low wages rather than relying on welfare — would be a program with weaker work incentives than SNAP has today.

If the savings were secured by cutting benefit levels instead, increased hunger and food insecurity would likely result. Considerable research suggests that the SNAP benefit level may already be too low to enable many families to secure an adequate diet throughout the month. (Many run out of adequate food toward month's end.) The Institute of Medicine is currently reviewing this matter and examining whether the current SNAP benefit level is adequate. It would be dangerous to shrink benefit levels for needy children, seniors, and others.

Converting SNAP to a block grant at substantially reduced funding levels also would have other deleterious effects.

- SNAP would no longer be able to respond to increased need during economic downturns, resulting in increased hardship and hunger in recessions.
- Nor would SNAP be able to bolster the economy during recessions as it does today. In studying the effect of 22 different tax and spending options to promote economic growth and jobs in a weak economy, economist Mark Zandi of Moody's Analytics rated temporary increases in SNAP benefits *first* in effectiveness per dollar of cost, ahead of both unemployment insurance and all tax-cut options. CBO also gives SNAP increases its top rating for effectiveness in a weak economy. This is because SNAP benefits are quickly spent and injected into the economy, rather than saved. Preventing SNAP from expanding automatically as the

economy weakens by converting it to a block grant would remove what economists call an “automatic stabilizer” and hence likely make recessions somewhat deeper and longer.

- Finally, a proposal like that reflected in the House budget would make *deep poverty* more widespread and severe, especially among children, who make up about half of all SNAP beneficiaries. I noted earlier in this testimony the emerging research on the importance to children's future earnings prospects of adequate family income and purchasing power during early childhood. Large SNAP cuts would go in the opposite direction and make this problem more acute.

Above all else, there is the issue of children's health. I am old enough to remember the mid and late 1960s, when each state sets its own food stamp rules, some states cut off families at income levels as low as 50 percent of the poverty line, and some states adopted barriers that impeded participation (in some cases, with disproportionate effects on members of some minority groups). Two teams of medical researchers conducted nutrition surveys in the late 1960s and found rates of childhood malnutrition and related diseases in some poor areas of our country that were akin to those in some third-world countries. This led to a national bipartisan consensus — led by President Richard M. Nixon — to establish national eligibility and benefit standards for food stamps. In the late 1970s, after the national standards had taken effect, the medical teams returned to many of the same poor areas they had studied in the late 1960s and found dramatic improvement among poor families and especially among poor children. Child malnutrition and related conditions had become rare. In a famous report on their findings, the medical researchers wrote.

In the Mississippi delta, in the coal fields of Appalachia and in coastal South Carolina — where visitors ten years ago could quickly see large numbers of stunted, apathetic children with swollen stomachs and the dull eyes and poorly healing wounds characteristic of malnutrition — such children are not to be seen in such numbers. Even in areas which did not command national attention ten years ago, many poor people now have food...¹³

The researchers credited food stamps as the single largest factor for this striking progress, concluding that “no program does more to lengthen and strengthen the lives of our people than the food stamp program.” I believe this is a lesson we shouldn't forget.

III. Implications of Welfare Reform

The 1996 welfare law is frequently cited as a reform that transformed a key part of the safety net. It's often either celebrated as a spectacular success or vilified as a cruel failure. Neither stereotype is consistent with the evidence.

Significant increases in employment among single mothers began in the early 1990s, prior to the welfare law, and continued after its enactment, with the change over the decade being quite strong. Welfare reform was implemented at the same time that a robust expansion in the Earned Income Tax Credit was taking full effect and that the labor market was expanding rapidly, with tremendous job creation; the unemployment rate fell to 4 percent at the end of the decade. For a number of low-income single-parent families, the result was an increase in income and a reduction in poverty.

¹³ “Hunger in America: The Federal Response,” Field Foundation, 1979.

These effects, much heralded at the time, were not the result solely (or very likely, even primarily) of the welfare law by itself. They resulted from a combination of all three of these factors. A highly regarded study by Jeffrey Grogger of the University of Chicago found the EITC expansion actually to have a larger effect in increasing work effort than the welfare law changes.¹⁴ But the two changes reinforced each other, amounting to a combination of “carrots and sticks.”

Even in the hot labor market of the late 1990s, however, some families and children experienced significantly increased hardship in the aftermath of the welfare law. As a group, those welfare recipients who were the most employable — often with the most education, skills, and/or work experience — made the most progress. But too often, families with the least education and job skills and/or the deepest physical, mental health, or other problems sank deeper into poverty, ending up with neither cash assistance nor earnings to support their families. Ironically, the welfare law both *reduced* poverty among many of the better equipped recipients and *increased* deep poverty among a number of the most disadvantaged families.

The overall results were the most favorable in the hot labor market of the late 1990s, while TANF’s weaknesses have been greatest in recent years, for three reasons — the lack of availability of jobs in the economic downturn, the inability of the block grant to respond effectively to increases in need as the economy turned down, and the effect of 15 years of erosion in federal TANF funding levels that are now lower even in *nominal* terms than they were in 1996, and are much lower (28 percent lower) once one adjusts for inflation.

Some of the specific results are quite disturbing.

- In 1995, for every 100 families with children living below the poverty line, 68 received some assistance from AFDC, the cash assistance program that preceded TANF. Today, for every 100 such poor families with children, only 27 receive any cash assistance through TANF (and that includes working-poor families that receive some assistance as a supplement to their low wages).
- For those poor families with children that *do* receive assistance, benefit levels have plummeted. In the majority of states, TANF benefits now fail to lift a family with no other cash income even to 30 percent of the poverty line (before SNAP benefits). In no state are TANF benefits sufficient to pay the rent on a modest apartment (based on HUD’s “fair market rents”) even if the entire benefit is used for rent.
- With federal TANF funding having fallen substantially in real terms even as need has increased, many states have cut TANF employment and training programs as well, and services to help poor parents find jobs — steps counter to the goals of welfare reform.

One factor that has intensified these problems is that many states took advantage of their flexibility to move TANF block-grant funds around and have used some of the federal TANF funds to *substitute* for (or supplant) state expenditures, and thereby to fill state budget holes or finance new expenditures (or tax cuts) that may have little to do with low-income families. The GAO examined a group of 10 states in 2001, and reported that five of the states in its study “used between 15

¹⁴ Jeffrey Grogger, “The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income Among Female-Headed Families, *Reviews of Economics and Statistics*, May 2003.

percent and 25 percent of their annual [TANF] block grants to finance state programs that had traditionally been financed with state dollars,” while another four states diverted up to 10 percent of their TANF funds in this way.¹⁵

This state behavior has had particularly deleterious effects on poor families in the current economic downturn: in general, once states shifted these funds, they were unable (politically) to move them back when need among families with children increased in the recession.

To reiterate, I am *not* saying there have not also been positive effects from the welfare changes. The results are mixed — positive for some families, negative for others — strongest in an economy where jobs are plentiful, weakest in an economic downturn.

But if the goal is *both* to promote work *and* to maintain an adequate safety net for those lacking well-paying jobs — and especially for their children, and for low-income elderly and disabled people who cannot work — then it would be a serious mistake to convert Medicaid and SNAP to block grants as well and to shrink their funding. Doing so would magnify TANF’s weaknesses and would substantially increase the ranks of the uninsured and the deeply poor.

Improvement in the safety net is needed, but the most important step we can take is to develop policies that are tested and proven to be effective in creating jobs for those who encounter difficulty securing employment or in helping the most disadvantaged people to improve their skills so they have a better chance of competing in a tough labor market. Many of those who turn to the safety net are people who are currently working but earn too little (in part because of limited education and skills) or people who want to work but cannot find employment.

* * * * *

In conclusion, I earnestly hope that policymakers will be able to step back from the usual type of Washington debates and political battles and consider what policies would be best for “the least among us.” I urge you to follow the Hippocratic oath and “do no harm.” I also implore you to adopt the Bowles-Simpson principle of protecting the disadvantaged and avoiding measures that would increase poverty and hardship in a nation as abundant as ours.

Thank you.

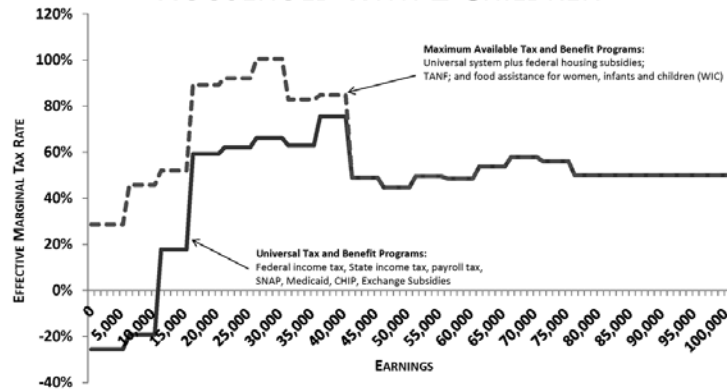
¹⁵ GAO report 01-828, August 2001.

Chairman RYAN. Thank you, Bob. Let me just begin with you, Dr. Mulligan. One in six people are in poverty today. Our rates are the highest they have been in a generation. And as we have seen, our spending on these programs is at an all-time high as well. So it is not working. That is the whole point here. What can we do to have our anti-poverty programs work? And that is the goal of this.

I think this study in marginal tax rates, the implicit incentive or disincentive to move on to a life of independence on upward mobility is something that we need to look at. You have done so much work on this, Dr. Mulligan. Can you bring up Chart 8?

CHART 8

EFFECTIVE MARGINAL TAX RATES FOR A HEAD OF HOUSEHOLD WITH 2 CHILDREN



Average effective marginal tax rates facing a single parent with two children living in Colorado. The effective marginal rate is the marginal tax rate faced in the formal tax system (federal, state, and payroll) in addition to the rates arising from the reduction in disposable income from the loss of transfer benefits. The tax rules used for federal and state income taxes are for CY2011. The payroll tax rate does not include the temporary reduction of the employee portion of the tax. Hypothetical exchange subsidy values were calculated to display the eventual impact of the Affordable Care Act for a worker without employer provided coverage based on CBO estimates discounted back to 2011.

SOURCE: URBAN INSTITUTE

We have Gene Sterling, his chart, you may be familiar with this, at the Urban Institute, who talked about the implicit marginal tax rate is as high as 80 percent or higher between the income thresholds of \$15,000 and \$40,000. You mentioned what the effect this has on labor force participation. I have two quick questions. What is the effect, in your quantitative analysis, on its effect on labor force participation, and what was the implicit rate before the recession, and what do you think it is now? And then onto that I think you have done some research into how much increasing spending on the safety net was due to natural increases related to the recession, and how much was due to changes in eligibility and benefits?

So where were we before the recession started with the sense of spending and the implicit marginal tax rate? Where are we now with respect to the marginal tax rate? And how much of the additional spending was because of eligibility or because of the recession?

Mr. MULLIGAN. Okay, Mr. Chairman, you pointed us to the chart here from the Urban Institute, and that is showing something like a marginal tax rate as a function of income. It is at a certain point in time. I do not know what year is covered, here, maybe it is 2011 or something. But the point is we are comparing different income groups, and you can see the line wiggles. There is not one marginal tax rate, of course.

My work has really focused on, not comparing the income groups but comparing different years. Last year compared to 2007 before there was a recession. And in doing so, of course, I look at charts like this, but I like to summarize things in terms of kind of just a middle person. I call it in my testimony, the "median household head or spouse." What does their marginal tax rate look like? In 2007, their marginal tax rate from all these programs considered, as well as some others that are not considered there, was in the 40s, the low 40s, let's call it 42 percent for a precise number. And

when the ARRA was at its heyday, that marginal tax rate went up around 50 percent, so it went up about eight points, maybe nine points. Some of those provisions expired, and now we are down to maybe 46 percent; so there was an increase at one point of 8 or 9 percent. Now we are just 4 percent or so higher. I say, "just;" 4 percent is very big by historical standards, it is not like the marginal tax rate for the median household head or spouse changes every month or changes every year. That is a big change.

I like to use the analogy of a 100 gallon fish tank and it is full of water, and there is fish living in there swimming around having fun and stuff. And you ask me, "Well, what if I take a gallon of water out of that fish tank?" And I say, "Well, the tank is already full, probably not going to be a big deal. There might be one sensitive fish there who is bothered, but most of the fish will be fine."

But if you got a fish tank that is half full or half empty because somebody else took 50 gallons out of it, and now you ask me, "Can I take a gallon out of that tank?" I say, "You better be careful. You are going to do a lot more damage to those fish when you take 1 percent of the tank's capacity out of a tank that is already half empty." And that is where we were in 2007. People were not quite at 50 percent, but their marginal tax rates were up there around 40 or 50 percent, and what we did is we added several more percentage points to that. And that affects the economy.

I do not claim by any means that everyone or most people stop working because the marginal tax rate goes from 42 to 46. I am not claiming that. But we have decades of research on those effects, and what I have found is that, you know, in reality, work hours per capita fell about 10 percent during the recession. Now they have rebounded a little bit, maybe they are down about 8 percent. If we had just kept the safety net rules and the marginal tax rates the way they were in 2007, if we had just kept it that way, the recession would have been kind of half as deep. Hours per capita would have fallen half as much. Employment per capita would have fallen half as much.

Now if you look at any single provision, as Ron was saying, you look at any single provision, you might say, "Well, what effect can that have on the employment rate?" "What effect can that have on our unemployment rate?" Well, that is just one provision and it is small, but we have a safety net with many provisions. In my testimony I list at least a dozen changes in the rules. When you add those changes together, that is what is having a sizable impact on the employment rate.

So to put it simply, the safety net rule changes roughly doubled the magnitude of the recession if you measure the magnitude of the recession in terms of either employment per capita or work hours per capita.

The other question you asked, Mr. Chairman, was about the effects of the rule changes on the government spending, as opposed to the economy. And Dr. Greenstein said that the growth in spending over these last couple years is some combination of the recession and legislation. And I agree with that, but I understand your question to be, Mr. Chairman, what is the breakdown? How much is coming from the recession versus the legislation.

I have prepared estimates of causes of spending changes on non-elderly people. A lot of the safety net spending is on elderly people; let me put that to the side for a second. Even if we ignore what I just said, that the social programs affected the economy, let's ignore that. The new eligibility and benefit rules added many more dollars to safety net spending than the recession did. Take, for example, the combined inflation-adjusted spending on unemployment insurance and SNAP, adjusted for population growth. That spending would have increased about 40 percent if the program rules had been constant, thanks to the recession. The 40 percent is historically unprecedented, that is a big change. It would have changed 40 percent.

But what happened, in reality, on top of the recession, we had program rules and program rule changes and those two programs combined, their spending increased almost 200 percent. So the breakdown, Mr. Chairman, is 40 percentage points from the recession, another 160 percentage points from rule changes.

Chairman RYAN. In UI and SNAP?

Mr. MULLIGAN. In UI and SNAP combined. And those are the source of, in the non-elderly safety net spending, that is over three-quarters of the growth in the safety net spending in the past couple years has been in those two programs. So, I do not have a breakdown for you on the other programs, but you could see we got a big piece of the pie already.

Now I put elderly to the side. Spending on the elderly and programs for the elderly, that is an important and interesting topic.

Chairman RYAN. Let me get you there, because I am trying to keep Chris and myself to time limit, so we can get to other members, because I wanted to get to some of these other gentlemen if you do not mind. Let me just ask you quick, Ron, you were deeply involved in 1996 reform, so were you, Robert. Knowing what you now know from that experience, what would you do now in a very brief time period, to do, say welfare reform round two, to try and replicate the sort of successes we saw in the late 1990s?

Mr. MULLIGAN. I think that the biggest mistake in the legislation, and I do not think anybody anticipated exactly how this was going to unfold, but there is a problem, I think, at the bottom. Robert and I disagree about this.

Chairman RYAN. Deep poverty, you are talking about?

Mr. MULLIGAN. Well, yes, measured in various ways. I think they are incompetent. I do not think they are capable of holding down even a minimum wage job. They get a job, they lose it, and they just cannot sustain themselves in the market. And they are the ones that are worse off. I think that problem is undeniable. Other people deny it and say that's not a big deal.

Now, what would we do about it? We do not really know. When I testified for the Budget Committee a couple years ago, I said, "We should do experiments to find out and try different things," I am not talking about a lot of money here. I am talking about trying to figure out how we can help these people at the bottom.

Here is the point. More than in the past, our safety net is not just giving stuff away, it is requiring work, and I am sure at least one-and-a-half million low-income mothers went to work as a result of welfare reform, and they are better off, poverty fell, it turned out

as Republicans said it would. But this group at the bottom, they at least appear to be incapable of sustaining employment, so they are really in trouble. They get food stamps, they live with other people, but their poverty rates are extremely high, and they last longer than in the past; so that is the group that I am concerned about.

But the rest of it, I think, is a good model for the kind of things that you want to do. I think block grants definitely should be on the table; I am sure we would have big arguments about exactly what the characteristics are and what the strings would be for the states. Here is one notable difference, though, I will just take one second and say this, and that is in 1996, both Democratic and Republican state governors supported block grant. They wanted to block grant, and we knew it negotiating with them and so forth. I am not sure that is true now, and I am quite certain would not be true about Medicaid. The governors would be opponents, at least Democratic governors, and I think some Republican governors, too. That is a big difference between now and then.

Chairman RYAN. Thank you. I want to keep time-sensitive, the other two gentlemen, we will just get you in on some other questions from other members. Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Mr. Chairman. First, I would observe that while spending on safety net programs is high now it is largely the function of the economic downturn. It has been called the most serious downturn since the Great Depression, and that obviously has an impact on safety net programs. In fact, they are designed to help cushion people during especially during different economic times. And so, while spending is up, the poverty levels would be much higher in the absence of those programs, and a little later I am going to ask Mr. Greenstein to comment on that.

Mr. Haskins, as you said, the safety net programs are requiring work now more than they did in the past. I assume, based on your involvement that you think that the EITC, the earned income tax credit, is an important part of the reforms that have been made.

Mr. MULLIGAN. Yes.

Mr. VAN HOLLEN. And Mr. Rector, you pointed to the fact that there are 79 programs. There is no doubt that there are lots of programs, and I think we would all agree that we can look to see whether we can better coordinate programs and where we can find efficiencies, we should. But I think you know that big drivers of costs are really about five programs that really drive those. I assume one of the ones you are talking about on your list as means-tested programs is the EITC, is that not right?

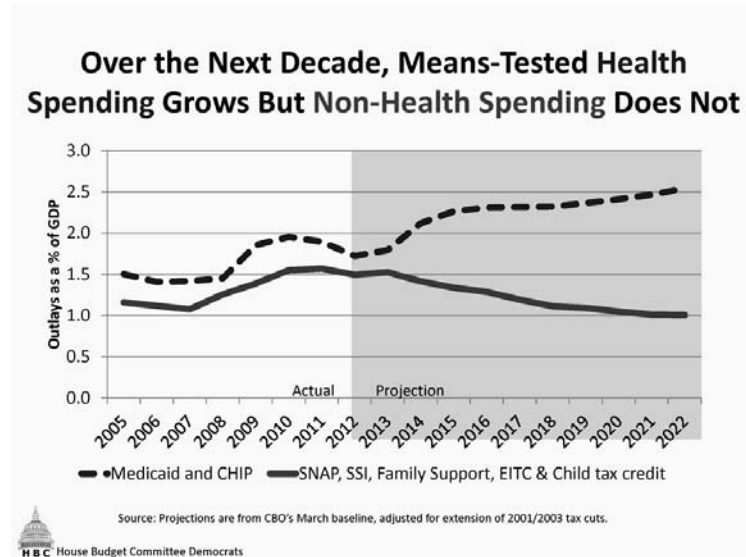
Mr. MULLIGAN. Yes.

Mr. VAN HOLLEN. Mr. Mulligan, I just wanted to ask you about your analysis, because you state here, and I appreciate it. Obviously anytime you have these kind of programs, it will have some impact on labor market efficiency, that is not the argument here. The argument is the magnitude and the extent. Here you say America absolutely must have taxes and safety net programs, even though they reduce the reward to working. And so, there is no doubt at the margins here, these things have impact. The issue is how much?

Mr. Greenstein referenced another study that has been done, and I would just like, Mr. Chairman, to include it in the record. It was revised June 2011 by three very distinguished economists where they found that taking into account all the behavioral effects in response to these incentives has very little impact on the incentive to work. And I would just like to ask you, Mr. Mulligan, and I understand that you recognize that some of the ARRA provisions are expiring. Others are also going to expire in time. For example under SNAP, there is a November 2013 end to the enhanced benefit. Have you broken out the different components of that as part of your analysis with respect to the 4 percent?

Mr. MULLIGAN. Yes, I have done some breakdowns. Actually it was not so much a break-out, it was a build-up; I built up all the programs together. And yes there is an expiration coming on some of these things. On the other hand, we have the Patient Protection Act that is going to bring in some increases in marginal tax rate. And so, on the whole, going out four or five years, it looks like marginal tax rates will continue to be elevated above 2007 levels.

Mr. VAN HOLLEN. Right. So I am glad you brought up the Patient Protection Act, because it goes to Mr. Greenstein's point, that really to have a conversation about this that sheds more light than noise, we need to separate means-tested programs into health programs and everything else.—And if you could put up the next slide, please.



This is based on Congressional Budget Office data. And this is based on current law, CBO looks at current law, so Mr. Mulligan, they look at the expiration dates for different enhancements in ARRA, for example. And what this shows, the bottom line shows all the major non-health-related means-tested anti-poverty efforts, safety-net efforts. And what you see is obviously they increased as the economy hit the skids, more people out of work, that is the bump up, and over time as those provisions phase out and the

economy improves, you will see that that bottom line, the purple line actually returns down by the year 2022 to 1 percent of GDP, in fact lower than it was in the pre-recession period of time.

The top line are the healthcare spending, so that includes Medicaid, that includes CHIP programs, children's health insurance program, it also includes the additional people who will be eligible for Medicaid as a result of the Affordable Care Act. So this chart, I think, is very important as we have this conversation, as Mr. Greenstein pointed out, because when you are talking about Medicaid, let's put aside the Patient Protection Act, when talk about the current Medicaid program, the question I have for you, Mr. Mulligan, is if you agree with the statement made in the study that I cited. And here's what they say: They say that they find that when it comes to labor supply effects, the effects from Medicaid appear to be minimal, and they make no adjustment. Have you done an analysis of the labor supply effects of the Medicaid program?

Mr. MULLIGAN. Yes, in fact my estimates are built on a lot of the work that Dr. Moffet [spelled phonetically] in that study has done. I was more ambitious. I look at a lot more programs as included in their study, unemployment insurance would be an important thing.

Mr. VAN HOLLEN. I am just asking right now, with respect to Medicaid, the Medicaid program, the effect of the access and ability of people to access that program on incentives to work.

Mr. MULLIGAN. In what year?

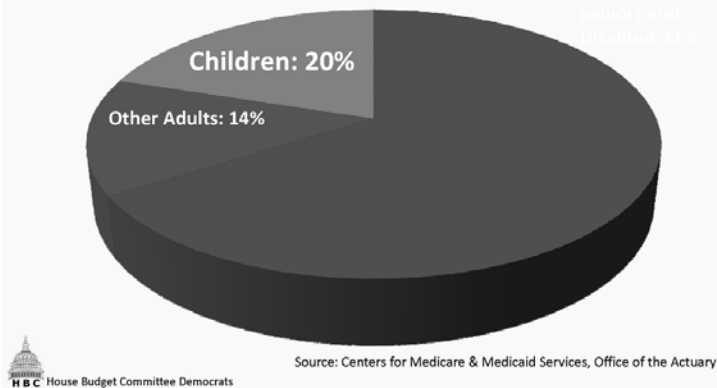
Mr. VAN HOLLEN. This year and going forward.

Mr. MULLIGAN. Yes, I have looked at that, and I agree with your characterization that by itself, it is small.

Mr. VAN HOLLEN. Okay. Now the reason I raise that is this is the Budget Committee, right? We are looking at ways to reduce the deficit, I believe, we have a joint effort to do that. If you look at their budget, they cut \$800 billion out of Medicaid over 10 years. And I just want to go to the next chart that shows what the composition of people on Medicaid is by dollar; these are the costs from Medicaid.

Seniors and People with Disabilities Are Two-Thirds of Medicaid Spending

Medicaid Expenditures by Enrollment Group, 2010



Almost two-thirds of Medicaid dollars go to seniors and individuals with disability. I would venture to guess, you are not going to get a lot of work incentive changes out of seniors in nursing homes. Another 20 percent benefits kids. I venture we are not talking about trying to put kids to work.

So if you look at the big cost drivers, and you look at the Republican budget, where they go is after Medicaid. And as you have said, Mr. Mulligan, the impact that Medicaid has on incentives to work is minimal, and we can see one of the reasons why, at least on a cost basis.

So, let's be serious about this conversation here in the Budget Committee. We are happy to look at reforming programs. As I said, there may be 79 programs. A lot of them may be very small, and if we can find savings, we should. But the Republican budget reduces the Medicaid spending by 30 percent in the year 2022 and 75 percent in the year 2050. That is CBO, Congressional Budget Office, numbers. And I think we should keep our eye on the ball here in the conversation.

And I would just like to end by asking Mr. Greenstein to comment on that, because every member of this committee knows Medicaid is already stretched to the limit. And everybody talks about the provider cuts under Medicare? We already know that there are really high provider expenditures in Medicaid. You have a waiver system that allows states great flexibility right now. And so to suggest that as part of this analysis and work incentives that we are going to get a lot of budget savings and the number one driver Medicaid is just wrong. Mr. Greenstein, if you could just comment about that.

Mr. GREENSTEIN. Two comments. Interestingly, some of the studies that Dr. Mulligan cites in his testimony, when you look at them, what they find is, and this is something. An expansion in a safety net program, depending on how it is designed, can actually

increase work incentives. Example, one of the studies he cites, issued by a conservative think tank here in Washington, found that the changes in Medicaid, which were bipartisan, in the 1980s and early 1990s that changed Medicaid so that children did not have to be in welfare families to get Medicaid and the children in low-income working families became eligible, it found that that increased work incentives, decreased welfare use.

When you make it so that you have to be on welfare and cannot work to get benefits, you are going to have big work disincentive effects. When you change the programs so you can work and get them, and as the welfare law does, it is hard to not work and get cash assistance, then you can actually increase work incentives.

I would argue that the Affordable Care Act is likely to increase work incentives. A little example, today under Medicaid in the median state, if you are a low-income working family, you as a parent lose eligibility for Medicaid when your earnings hit 63 percent of the poverty line. If you are at 75 percent, if you are a full-time minimum wage worker, and I would note that 55 percent of all employees in the United States whose families are below the poverty line do not have an offer of coverage from their employer, if you are working minimum wage and you do not have an employer offer of coverage, and you get really sick, you often have to quit your job in order to qualify for Medicaid. That is crazy, and the Affordable Care Act fixes that.

With regard to the proposal in the House Budget, my concern is since Medicaid already pays about 20 percent less per beneficiary than private insurance, it pays providers a lot less, and its costs are actually been rising a little slower than private insurance, and mostly it is already contract with private managed care companies to run the Medicaid program for children and parents, it is extremely difficult to see how you could get savings of the magnitude in the House Budget without really deep cuts.

In the Urban Institute study this last year, and under their most optimistic scenario, in which states exceeded in doing efficiencies that reduced Medicaid cost-growth per beneficiary all the way to GDP plus zero, they found that states would have to take 14 million low-income people off of Medicaid to fit within the budget parameters. And if they were not as successful, it could be as much as 27 million people losing Medicaid coverage, with a average reduction in provider rates of about 30 percent on top of that, meaning there being few doctors to accept patients.

Chairman RYAN. Thank you. Mr. Garrett?

Mr. GARRETT. I yield the first 30 seconds.

Chairman RYAN. I just want to point for clarification, I think it has been said a couple of times, our budget does not propose on Medicaid, work requirements or time-limits. That is not a proposal contained in our budget. I just want to clarify that.

The other point is we are spending \$100 billion next year on Medicaid alone. So I know this is the Washington talk. It is not being cut. It is not growing as fast as what the president's Budget proposes. And yes, we do propose to repeal the president's health care law, which has a dramatic increase, but we are actually still increasing spending on Medicaid in our budget. We are not calling for work requirements and time-limits on Medicaid, and that is

now defined as a savage cut when it is actually an increase that is not as big of an increase as the president is proposing. Mr. Garrett.

Mr. GARRETT. Thank you. Mr. Rector, according to your work as we have heard already, there are 79 means-tested welfare anti-poverty programs that the federal government runs. It costs around \$927 billion per year. And since the creation of the modern day welfare state back in the 1960s, the size and scope of these federal anti programs have skyrocketed. In fact, according to CRS, taxpayers spent \$2.7 billion in today's dollars back in 1962. Today we spend around \$600 billion on the welfare programs.

All these are well-intentioned or well-motivated and safety-net programs, but I am concerned that many of these programs are unconstitutional. You have TRIO, you have Job Corps, you have energy programs like LIHEAP, they are just a few of them that have dubious constitutionality, I would think, and again, are better off, quite honestly, left to the states to do.

Now this issue of constitutionality is a timely one, considering what is going on across the street or what has gone on across the street with regard to health care. But most of today's so-called welfare state is built on, what I would suggest, is an unconstitutional foundation that we should begin to examine closely. So the question to you is, out of these 79 welfare programs are out there, how many do you think, or what percentage are simply totally unconstitutional or highly questionable in their constitutionality?

Mr. RECTOR. I would agree with you that it is very difficult to find a constitutional basis for much of any of this, but I am a realist, and these programs are not going away. And the reality is I think we would have been better served if the state governments had taken the role here, but all the way back into the 1920s, the state governments have been shucking their role. And basically their main function is to come here and ask you for more money. Honestly, I have been doing this for 30 years, and that is basically what I see states do.

I do think that what we have to do is change the nature of the programs. And one thing that we need to avoid is the idea that the solution to this is to collect money in Washington and then hand it over to the states willy-nilly without any goals or guidelines, and that is a recipe for success. In fact, that is a recipe for failure.

The word "block grant" is frequently used with respect to TANF. I would say that is a misnomer, with respect to the Temporary Assistance to Needy Families program, which I helped to design. I would call that a work activation grant, because the core of that program was to push people off of welfare and into employment, and it was, within its own little limited realm, which is a very small portion of the welfare state, it was pretty successful in doing that. But we did not say that the idea was to collect money here in Washington and then hand it over to the states.

The biggest block grant program of all time was revenue sharing, created by Richard Nixon. What was the first program that Ronald Reagan abolished when he got in office? Revenue sharing. It was a waste of money. I would love it if the states wanted to take fiscal responsibility for this, but I do not see that. And so what you have to do is try to deal with this real world, which is a huge system

that is growing very rapidly, a system that penalizes work and penalizes marriage, and thereby generates an endless increase in need for aid.

Mr. GARRETT. Well let's just follow up on that then to your left. Mr. Greenstein was just making reference to how some of that is potentially addressed in the Affordable Health Care Act, in his argument, that when you get into the situation of marginal tax rates and that there is a benefit of actually staying on the system as opposed to actually getting out and getting to work, do you agree with the assertions that he has made? He sounded reasonable.

Mr. RECTOR. I think that that is a fool's errand, and it will end up costing you more.

Mr. GARRETT. Why is that?

Mr. RECTOR. Try to reduce these marginal tax rates, you just expend the programs farther and farther up the stream until you have these programs going up to families making \$80,000 a year. Way back in the ancient days we had something called the Seattle Denver Income Maintenance Experiment, which was in the 1970s and 1980s. And what that experiment showed was that the marginal tax rates on the programs, it created different experimental programs, marginal tax rate did not matter that much. What mattered was the core amount of benefits being given. How do you cut the Gordian knot here? The simplest thing is when you are giving assistance to an able-bodied adult, you must require that adult to work, prepare for work or look for work as a condition of receiving aid. That is what we did in the AFDC reform, but we only did it in one program, and that is why that reform was unsuccessful. That does not cost you more money; that costs you less money. That is the key to increasing employment.

Mr. GARRETT. Thank you, Mr. Rector.

Chairman RYAN. Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman. I would agree with what Mr. Rector said about states being AWOL, states historically have not stepped up. They could have, they did not, but there is a whole range of areas: pollution, we would not have a Clean Water Act if states would have stepped up and done it, and if they had had the capacity to deal with things that crossed state lines.

That is why, for instance, and I appreciate Mr. Haskins talking about some of the upside of what happened in 1996 and some of the downside. The states loved the idea of block granting then, and you look at what has happened in some states, Texas is a classic example, where they have back-filled a whole host of other things. The benefit levels in Texas are abysmal. Nobody in this room could remotely live on those levels, but they have used it for other purposes. And you have got material, all of you have got material that the press has tracked some of this, where it has not gone to the neediest, it has gone instead to back-fill problems that they could not solve in Arizona by selling their state capitol. I am not certain that that was the best policies to have followed, but we are dealing with some realities, here.

I am more than a little frustrated that we seem to have an inability to accept some of the successes. I mean, Richard Nixon, Daniel Patrick Moynihan wanted a guaranteed annual income, and we have started to move in, some of the direction of 1996, to move

towards rewarding work. But at the same time, Congress, in its wisdom, has made these programs much more complex. Poor people have to navigate all sorts of conflicting standards, we have tried to streamline it for food stamps. That has been a struggle. We make it hard for them. We have different standards for poverty if it is going to be for a college program under Pell grants it is what happens in terms of qualifying for some other educational benefits, for food stamps, for receiving money. They navigate something that would take the complaints we hear from the business community about the complexity of rules and regulations, they are simple by comparison to what families which, and I again agree with Mr. Haskins, a lot of these people are marginally functional, and we have them go from pillar to post to try and deal with different standards for health care, for food stamps, for educational benefits. It is draining, it is exhausting, it is not efficient. It wastes money of the system and of their time.

I think it would be better if we tried to take the programs that work, try and refine them, actually have some standards, but deal with the realities that these folks live in. I just chuckle with the notion Mr. Rector talks about, if you just even this out all across the board, it would be \$36,000 for the 100 million poorest Americans. That is not how the system works, that is not how it is allocated. We are dealing with, as my colleague, Mr. Van Hollen, pointed out, the bulk of this medical expense driven to the disabled, the elderly, the most vulnerable and expensive, and that is not going to change.

I am hopeful that we can come back and be realistic about the needs. And before we start walking down the path of seriously entertaining more draconian activities, more block granting to states that will use it to back-fill and not step up, for example, like Medicaid, the people that are visiting your offices are terrified that the Republican approach to Medicaid will be adopted. Because they are getting hammered now, even though it, as Mr. Greenstein points out, it saves money, at least as composed to private health insurance or Medicare. They are terrified about the cuts that are coming, and there is nobody that is going to step up and take it.

One of the things I am concerned about, and Mr. Haskins, while we have you here, part of the law of unintended consequences, did not we see some rather interesting shift after 1996 to watching people move from welfare to disability. Have you looked at that at all?

Mr. HASKINS. Yes, there has been some movement like that, especially among children. And some people think it is not right, but advocates think it is. This is a very sensitive subject. We did change SSI for kids in the 1996 legislation, and as a result of that, about 100,000 little bit more than that I think, lost their benefits because they were not disabled, they had things like dyslexia. So the rolls went down, but then they came back up.

Mr. BLUMENAUER. I see my time has expired, Mr. Chairman, but that is one of the areas I think would be kind of fun for us to focus in on, not for children, but for what has happened to disability payments altogether, that has been skyrocketing.

Chairman RYAN. Yeah. Ways and Means, we have done some hearings on this as well. Mr. Stutzman?

Mr. STUTZMAN. Thank you, Mr. Chairman. Mr. Rector, I would like to follow up on a comment that you had made, and I know what you are referencing to as states are coming to the federal government to ask for money for programs. I come from Indiana and served in the state legislature there for eight years, and I am seeing a real shift there that legislators would like to see more authority and the ability to have authority over programs like Medicaid. Are you seeing that anywhere else across the country? Is there a shift that people are frustrated with the strings that Mr. Haskins referenced? We saw that with the stimulus package. We saw that with just about every federal government program. There are always strings attached to it. We even just avoided unemployment insurance money from the federal government because of the strings that were attached to it in Indiana.

Mr. RECTOR. I think Medicaid is different because, as I said in my testimony, 75 percent of means-tested spending is federal, 25 percent is state, but almost all that state spending is in Medicaid. And when you set Medicaid aside, this is like a 95 percent federally funded system. It is important to realize that.

States are serious about Medicaid, because they have a lot of money on the table, okay, and it is absolutely true that what Obamacare does is it radically demands that states spend more money on Medicaid by increasing enrollment. It is not increased for disabled; disabled are already covered by that program. All these increases are going to able-bodied people, okay. And the reality is I think that the states do have a lot of play in the Medicaid system, and they need to have a very important role in determining how that system would work.

By contrast, something like food stamps, they have only 10 cents on the dollar in play there. What actually happens with a program like that is it becomes bureaucratically autonomous when it hits the state. States will not be serious about work requirements, for example, they do not have any money in it. It is not their program, and they do not want it. You want to take this over? They will not take that program over. They do not want to spend their money on that; they want you to spend federal money. But if you are going to spend federal money on a program like that, you have to make sure that that program meets the real goals, which should be to promote self-sufficiency.

When Lyndon Johnson launched the war on poverty, he said he wanted to reduce dependence, not increase it. He wanted to make people prosperous and self-sufficient through their own abilities. And judged by those standards, this \$19 trillion has been an absolute debacle. The poor are far less capable of self-sufficiency today than they were in 1964 when we started these programs, because these programs reward non-work, and they in particular non-marriage. The percentage of births out of wedlock has grown from 7 percent in 1964 to 42 percent today. That is the key cause of child poverty today, and it is a key factor in all this welfare spending.

Mr. STUTZMAN. Mr. Mulligan, I would like to ask you a question as well. In relation to the 70 programs, roughly 70 programs, which I am not sure if that even includes Earned Income Tax Credit.

Mr. MULLIGAN. It does.

Mr. STUTZMAN. Does it? Okay. How have you seen these programs affect the incentive to working for people, because I can tell you, I hear from constituents back home that are very frustrated with folks who do take advantage of programs, and they say, "You know, if they had worked as hard at finding a job or getting out and finding work as they do at finding government programs, they would be successful." And so I think that there is also this shift in our society that there are so many government programs out there, go out and find it, and you can make a living off of it.

Mr. MULLIGAN. In the research field, we have a term called "take-up." It refers to how many people are technically eligible to receive the benefits from a program actually go and get the benefits. And the take-up in a lot of programs is less than 100 percent. There are a lot of people who choose not to take the benefits, and I account for that in my calculus. Now, I have not looked a baseline of what happens if we had no safety net? My baseline has always been what happens if we go back to 2007? And if we go back to 2007, there would be a small percentage of people whose employment status would be different. Now in an economy with 300 million people, a small percentage, we are talking a couple million people would be affected, but it is still a small percentage. And the norm is to continue working, continue to be employed despite rule changes in the safety net programs.

Mr. STUTZMAN. Thank you, I yield back.

Chairman RYAN. Thank you. Ms. McCollum.

Ms. MCCOLLUM. Thank you, Mr. Chair. Thank you. After being here an hour and a half, there are so many questions and things that I would like cleared up, but I am going to have to focus here tight. One thing I would like to say is, to Mr. Garrett, the term "unconstitutional," versus not in the Constitution, directed in the Constitution are two very different ideas, two very different concepts, because something silent in the Constitution versus unconstitutional, and we are just kind of throwing those phrases around here, and the social studies teacher in me just had to take a second and go back and take out the dictionary, and we need to mean what we say and say what we mean here.

I would like to go back and just really look at this chart here.

The people that we are talking about, seniors, our aunts, our uncles, great aunts and uncles if you are lucky enough like I am to have a great aunt who has made it to 104, never thought that she would live this long, lives independently. She receives Medicaid support and help. The disabled that I heard from when I was in the State House and we were going through and doing the welfare reform, who said, you know, "I want to work, but when I work and I make a living wage, I lose my personal health care attendant. I cannot afford that. I cannot afford to lose my personal health care attendant."

The mothers, through no fault of their own, found themselves all of the sudden with children, say, "I do not have any health insurance if I go back to work." So some of the reforms that we made to Medicare to help the elderly, we also made to Medicaid to help people who had children who wanted to go back to work. And now we are saying, "No, we are going to cut that. You are not going to have access to health insurance for your children."

But I want to talk about SNAP for a minute, because I have been out visiting several schools in St. Paul. And I have to tell you, two of them that I had been to, 40, 60 percent poverty in these grade schools, and I have been there in the morning, and this is the School Lunch Program, but SNAP is also what is keeping them fed at home. Their parents, after about two weeks, the food is done from SNAP, they are over to the food shelves. But these kids who come into the School Lunch Program that on Monday might have been the first opportunity for them to have milk or a piece of fresh fruit. They are quiet, they say thank you and then they have a healthy meal again at lunch. If kids are hungry, they cannot concentrate in the classroom. And I know that this would not reflect any one of my colleagues here, but this is what is upsetting to me about the discussion, and what I am hearing about how people are talking about cutting SNAP and "SNAP is not needed," and "food stamps are a waste." And I know this does not reflect any of my colleagues here, or any of the people on the panel, but these are the things that are out there, people are talking about.

Rush Limbaugh, "Children to eat. Cannot find food, there is always a neighborhood dumpster." June 16, 2010. And I will just cut to the end of it.

It says, "There is things in your house. There is a thing called a refrigerator, you probably know about it. Try looking there. There is also things that are called in the kitchen in your house called cupboards. And in those cupboards, you might go to find a ding-dong, a twinkie, potato chips," he goes on and on and on. And then he goes on and says, "If that does not work, try a happy meal at McDonald's. You know where a McDonald's is. There is a dollar menu at McDonald's, and if they do not have chicken McNuggets, dial 911 and ask for Obama." But here is what really, I think, goes to the heart of what when we are talking about SNAP and "those people."

"There is another place," Limbaugh goes on, "If none of those options work to find food, there is always the neighborhood dumpster. Now you might find some competition with homeless people there, but there are videos that have been produced to show you how to healthfully dine and how to dumpster dive and survive until school kicks back up in August. Can you imagine the benefit we would provide people?"

Folks, we need to, when we are having these discussions, not talk about "those people" or "welfare people," the way that we are talking about Americans; we are talking about our children, we are talking about our elderly who, by the way, access SNAP. And so, just to this chart again, where we are today with where we talk about cutting entitlement programs, it is seniors, it is the disabled and it is children.

Chairman RYAN. Thank you. Mr. Lankford.

Mr. LANKFORD. Thanks you all for being here. Here is a hard question for us as a nation to struggle with. We have people in great need, and we are a nation that has determined we are going to step up and help. We are going to provide a safety net. Now, how do we determine success of that safety net?

Is it based on the percentage of people that are in poverty? Is it based on the transition of people that were once in the safety net,

out of the safety net, that they were there; we helped them successfully navigate out of that safety net? Is it the length of time in programs? Is it the coverage of every area of that individual? How do we determine success? So a lot of questions there, just quick responses, what you have seen from anyone who would like to respond to that. How do we determine success?

Mr. RECTOR. I would go back to Lyndon Johnson's original goal that success here is not to increase the number of people receiving handouts. He said I do not want to deal merely with the symptom of poverty. I want to deal with the causes. I want to make people prosperous and self-sufficient. He said he wanted to turn the poor from being tax-eaters into taxpayers.

So one measure of success would be the percentage of the able-bodied population that is able to sustain itself above the poverty level without government handouts, and by that standard, absolute, unmitigated 40 year disaster.

Mr. LANKFORD. That is the issue. We have this structure now, if that is a goal, and I would concur that it is a great option for the goal, to say let's help people transition out of it, and are we accomplishing that? That is part of the issue here. Other comments you want to make? Yes, sir.

Mr. GREENSTEIN. Well there is no simple answer, there are multiple goals: reducing need and great hardship, we do not expect people who are elderly or disabled to go and work, and I very much agree with Ron Haskins, the data is crystal clear. Though I wish it were not the case, but there is a group of families at the bottom who have physical problems, mental health problems, depression, little education, little cognitive skills. I do not know if I would go so far as to use Ron's word, "incompetent," but these are people, and that has gone up. And for some of them, I think we could try subsidized employment programs in the private sector, but they have a very hard time holding a job on their own.

In terms of transitioning off the safety net, well yes, but. You know, here we have, I think the Chairman would probably agree with what I am about to say, I mean, if you really want to look at the safety net, you have to look at the tax code as well. I mean, we have a trillion dollars of tax expenditures. We have people who get things all the way up, so it is complicated.

One last point though, that is key. Over the last several decades we have effectively made a decision implicitly in this country that to compete internationally in the economy we will let wages erode some at the bottom of the wage scale, and we provide things like the Earned Income Credit. We let health insurances erode among employers, but we have broader health coverage. Surely I would presume, most members, and perhaps all of the Republican members would agree that the right answer to lifting working-poor out of poverty is not to have the government set a minimum wage so high that, that alone, I mean you would probably lose jobs if you raised the minimum wage that high. So if you are in this international economy where wages are eroding at the bottom, you need a larger government role in making work pay and supplementing low wages.

Mr. LANKFORD. Let me interrupt because I do have a ton of questions we are not going to get to now. But I do want to make a cou-

ple mentions of it. One is the comment that you made earlier Mr. Rector, and that is, as we have seen marriages collapse, especially among the poor, we have seen a greater need for government to engage. And the safety net continues to grow. And it is my concern is that we have shaped a safety net in such a way that it is created a disincentive for families to stay together, and that we have, somehow, as we try to create this safety net, we have also created a system where families are not needed financially in that. We need to have a system that does not punish or does not ignore the family, but also blesses the family in that.

But I would also ask this question. Areas of fraud that we experience, because there are areas of fraud that are out there, we need to have a good safety net, but we need also to be diligent, to make sure that the people that are receiving benefits are the people that are exactly intended to receive those benefits as well. Comments about fraud, whether that be in SNAP or that be in SSI, I cannot tell you the number of senior adults that catch me that are furious about fraud that they have seen or experienced around Medicare, individuals that have come up to me that are receiving SNAP, or that are receiving Medicaid, that once we probe it, you think okay, this is probably not legal, and now they are receiving it. Are there other things that you have seen or comments that anyone want to make about SNAP or any other program, or how we deal with deficiencies to make sure the right people receive the right benefits.

Mr. RECTOR. There is a massive amount of fraud all the way through all of these programs. You have to have much greater controls on identity, particularly in Medicaid. One of the other things that you can do to reduce fraud, though, one of the key elements of fraud is people that are working and do not tell you that they are working, and they get benefits they are not entitled to. One way to get around that is to have a work requirement. If you say, "You have to come down here and do job search," and they already have a secret job they are not telling you about, they cannot do both of those things. That was a major factor in the caseload reductions in the early TANF reform, which were effectively rooting out fraud, caused substantial reductions in people that should never have been on that program.

Chairman RYAN. Thank you. Ms. Bass.

Ms. BASS. Yes, thank you. Let me just follow-up on some of what you were saying, because I do think that there has been a lot of fraud and misuse of benefits, but I think oftentimes, especially if you look at the dollar amount, a lot of that fraud in Medicare, if you look at who is committing that fraud, the dollar amount does not compare to the individuals versus some of the fraudulent businesses in the medical appliances and all, you cannot really make that comparison.

But using the example that you were just giving, though, in terms of somebody who was working and they hid the fact that they were working, a lot of times people are caught in a catch-22, because one of the main reasons why women go on and off public assistance is because when their children get sick, if they do not have the type of job that allows them to take sick days, then they have to stay home with the children, they lose their jobs. So it is a real catch-22. If people had healthcare, and if people had

childcare, that is one of the biggest incentives for people to be able to have their job and retain it.

I wanted to ask a couple of questions. Mr. Haskins, you described people who were at the lowest income levels as being incompetent, and I was just wondering if you could maybe explain that a little more. What you know about this population, why you would describe them as incompetent and where you would go with that. You raised the question that you were not exactly sure what to do with them, so maybe you could tell me how you have reached the conclusion about competency.

Mr. HASKINS. The first characteristic is an inability to hold down even a moderate job.

Ms. BASS. Right.

Mr. HASKINS. And I can tell you that research shows that families that have more than one problem that interferes with job, like three or more children, a disabled child or a child with some kind of even mild disability, a low education, a big one is depression. So low-income families, usually single mothers, that have two or more of those problems are much less likely to be able to stay in the workforce.

Ms. BASS. Right.

Mr. HASKINS. So that is what I mean. They have problems, it is not like they are lazy, they just are not competent to handle the problems that other people are able to get around. We all have those kind of problems, so that is what I meant.

Ms. BASS. Okay, and I appreciate you making the distinction between that and laziness, because actually some of those problems that you described, and I am sure that you would agree, a person who is middle class can also have all of those same problems, or upper middle class, but if you have support services around you and you can afford to purchase counseling, or purchase medication, then you do not typically fall through the cracks if you have those same type of problems.

Mr. HASKINS. I think there is some truth in that. If you want to learn more about this problem, there is a program in Chicago called Project Match. A woman named Toby Herr who has been working on this problem, I think, for 20 years, and I think she would agree with the description I just gave to you, and she finds that it is very difficult, even with intense help, to help these people get on their own two feet. She has a program called Small Steps. So what she does, for example, is to get the mother to come to the childcare facility or Head Start facility and be there for, say, 10 hours a week. And then after she has done that for six months, to come more and to do something else, eventually to look for and get work. So it is a series of small steps. I think these problems that the low-income mothers have that I am describing, they are less able to handle them than other even single mothers are.

Ms. BASS. Right, and one of the reasons why I was asking you to explain, and I appreciate your explanation, is because how you would resolve those problems, what you have described are a number of programs. Now what I am concerned about, and again I appreciate your description, because frankly, sometimes I am saddened when I listen to some of my colleagues who describe people who are low-income because I think that they do not have a real

view or maybe they do not have the life exposure or the education to understand that people who are in the circumstances that you described, and you described them as not being lazy, but you described them as people who have a variety of circumstances that when multiplied have people fall through the cracks.

So to me then, I think about some of what we are proposing here, would actually make the problems that you are describing worse. And also, people who might have had a higher level of competency, education skills, or whatever, could actually be pushed down. So instead of strengthening the programs that you are describing, I am concerned that what we are talking about doing would actually exacerbate the problem in the population that you have just described.

Mr. HASKINS. Can I give a 30 second response to that, Mr. Chairman? Okay. I agree with much of what you say, but this is exactly the kind of description that we had back in 1996 when welfare reform was passed. People on welfare are not going to be able to support themselves. When we created a system that demanded they do so, imposed financial penalties on them, imposed time-limits on them, no matter what your interpretation of their characteristics is they went to work.

Ms. BASS. Right, however, a couple things. I got to claim my time, because I am going to run out of it. I got to respond to this.

Chairman RYAN. I will give you 20 seconds because, we got other Members here, and we got a vote coming up.

Ms. BASS. That is fine. I would agree with you. During that time, we were in a better economic situation, and what we provided was childcare, and we also provided the ability for those folks to get training and education. Over the years, we have cut that back. We have cut the childcare. We have cut the education. I think that we all know, especially in this current recession, the homelessness amongst women and children has increased. Thank you.

Chairman RYAN. Thank you. Ms. Black.

Ms. BLACK. Thank you, Mr. Chairman. I am one of those people that really can be convinced that something is workable if you can show me the numbers that it is really managing the problem that you have. And when we look back at the initiation of these programs, and we see 6 percent of the population at that point in time, and now we say 42 percent of the population is in poverty, something is not working. And for me, I want to know, what is it that we can do to make it work? Because if our real incentive here is as President Johnson indicated, that we want to make people self-sufficient and prosperous, it does not appear that we are going that way if more people tend to be taking from the government because they are not able or not being self-sufficient, there is a real concern for me.

And I will say that, as a nurse, and having worked with a number of people in the programs that I worked in, that what I saw was something very disturbing is that people become trapped. And they become so dependent upon a system where even when they have the skills, and you give them the opportunities and they attain the skills, that they are fearful that if they go to work or if they are not any longer getting that assistance that they have gotten regularly, that they may not be successful in the work world,

so you know, "I am fearful now, I cannot do this, I am going to be trapped." And that is where, I think, that our mistake is being made, is that we have got so many people being trapped in this program, and they are not getting out.

So, can any of you, and maybe I will start with Mr. Haskins and Mr. Rector, talk about how we can do things to keep people from getting trapped in these programs?

Mr. HASKINS. Well, again, I hate to be a one note Johnny here, but work is the key. We have to have strong work requirements. We have two work requirements in food stamp program that are observed in the breach. The states do not aggressively implement the program. The biggest savings, I think, is in unemployment insurance. I mean, what kind of system do we have where unemployment insurance, people that draw that, have a work history? Compared to welfare we have very strong work requirements in welfare, but in unemployment insurance system, we have a requirement in the law but it is not observed. We should have much stronger requirements in unemployment insurance. People would get back to work much more quickly. You are supposed to be the land of entitlement and to give money to everybody? Several European countries, especially Germany and something called the Hart's reforms, has greatly strengthened their unemployment insurance programs and imposed much stronger requirements and even reduced benefits and reduced the length of benefits to get people back to work. This is the future of all the western democracies. More people have to work. When they get unemployed, they have to go back to work sooner. That is what we have to do?

Ms. BLACK. Would you agree, Mr. Rector?

Mr. RECTOR. Focus on two factors. If you look at the \$450 billion of the welfare state that is families with children, overwhelmingly, about 80 percent of that is single-parent families. Okay, so there are two causes of child poverty in the United States and two causes of welfare dependence, and those are the collapse of marriage and very low levels of work. Even in the hottest economic boom, the average poor parent has only about 600 hours of work during the year. If you were able to raise that to full-time work, you would drop the poverty rate in those families by about 60 percent, and this is not in a recession, but in the hottest economic boom.

As Ron said, you clearly have to get the work rate up. You have to do that in programs like housing and food stamps, able-bodied people will work or at least look for work. But more importantly, that is not really going to work if the marriage continues to collapse. The welfare state has driven fathers out of the home. That is the predominant cause of child poverty today. If a mother is married to the father, even if you hold education and race constant, it drops the probability of child poverty by 85 percent. There is nothing even remotely like that. Marriage is more effective, now get this, marriage is more effective in reducing child poverty than having the parent graduate from high school. I will probably get a press report saying he does not want people to graduate from high school. Graduating from high school is really important, okay? But actually, amazingly, marriage is more important, and we treat it with absolute indifference if not disdain within the welfare system.

Ms. BLACK. Well thank you. And, Mr. Chairman, I think it is already said, my second question would have been about the incredible growth in the SSI program. And I know we have had some hearings in Ways and Means, but I would encourage that we would have those very hearing in here as well. Thank you. I yield back my time.

Chairman RYAN. Thank you. Ms. Bonamici.

Ms. BONAMICI. Thank you, Mr. Chairman. So I noticed, Mr. Rector, in your testimony you talk about some 79, I believe it is, means-tested programs that you describe as making up the federal welfare system. And then you have tables attached to your written testimony that outline those programs. I think it would be helpful if we run through just a couple of those, so everyone has a clearer picture when we hear a reference to the means-tested programs you are describing as part of the federal welfare system.

You include the refundable child tax credit, the Pell grant, Job Corps, America Corps VISTA and Head Start, and I am not sure that those programs in particular come to mind for most people when we talk about the federal welfare system. But I just want to take a moment and talk about Head Start.

In October last year, there was a column in the New York Times by native Oregonian, Nicholas Kristof. And the column is titled, "Occupy the Classroom." And Mr. Kristof described the findings of one of his interview subjects, Professor David Deming of Harvard, who had taken a look at Head Start outcomes. And here is what he wrote.

"The former Head Start participants are significantly less likely than siblings," so we are talking about the same socioeconomic group, "to repeat grades, to be diagnosed with a learning disability or to suffer the kind of poor health associated with poverty. Head Start alumni were more likely than their siblings to graduate from high school and attend college."

So I want to ask Mr. Greenstein, this assertion seems to back up what you said about the long-term gains that these programs produce. Programs, such as Head Start, such as the Pell grant and Job Corps, seem to be the kind of things that we would want to invest in if we truly have an interest in breaking the cycle of poverty. So, I am sort of setting aside that these programs are the right thing to do to help those in need. Let's just look at the economic sense, and these investments make long-term economic sense, do they not?

Mr. GREENSTEIN. I agree. You have to look at each program one by one, but if you take something like Pell grants, in the absence of Pell grants, fewer promising low-income students would be able to afford to go to college, and the data is very clear that while there are many factors, that people who graduate from college have higher earnings and better employment prospects than people who do not.

With regard to Head Start, it is interesting. For awhile, there were a lot of data that showed gains for children in the years following Head Start, but that then when you did standardized test scores, the gains seemed to fade away in secondary school. There is now new research that is very challenging that finds that even though some of the gains, or many of the gains, fade away in sec-

ondary school, they actually are finding that by the time people get to adulthood, that there are some increases in earnings.

So I think these things are really important, and I am also in agreement with Ron Haskins that for the people at the very bottom, we really need to do more demonstration projects to find the things that are most effective in helping them and then replicate them.

One last point, this is really key, some of the most important emerging research is research that finds for young children that a difference of several thousand dollars in their income, whether it is from earnings or from government assistance, is associated with increases in employment and earnings in adulthood. There is starting to be some evidence that it is deleterious for children's long-term earnings prospects to grow up in deep poverty, and we also need to take that into account.

Ms. BONAMICI. Thank you so much. And just briefly, I wanted to talk also about SNAP, because in 2010 there were proximately 27,000 households in my district receiving SNAP benefits. And when we talk about the programs and the people who rely on them, sometimes certain assumptions are made. So I just want to make clear about the data here. Of those 27,000 households in my district, the median income was below \$19,000 a year; 50 percent of the families had at least one person working in the previous year, and 36 percent had two or more people working in the previous 12 months. So roughly 87 percent of the participating families in my district had somebody working. So it is our struggling working families who really need this help. These are programs we should be supporting and not cutting. And I yield back the remainder of my time. Thank you, Mr. Chair.

Chairman RYAN. Thank you, Mr. Flores.

Mr. FLORES. Thank you, Mr. Chairman. This has been a fascinating hearing. And it really exposes the deep differences in the way we look at economic opportunity in this country. I have to start by saying let's remember that the best social program ever designed by man to combat poverty is a private sector paycheck. This is where you house a family, you feed a family, you educate a family, you grow a state and local tax base and you grow and economically secure middle class.

This hearing is about a choice between two futures for this country, a choice of debt, doubt and decline versus a choice of restoration of American exceptionalism. It is a choice between a failed Washington solution versus Main Street solutions. It is a choice between the reallocation of a shrinking economic pie versus a growing economic pie that provides more opportunity for everyone. It is a choice between the president's Budget, which accelerates our bankruptcy, which no Member of the Congress voted for, including the ranking Member that waxes so positively about it versus a budget that grows our economy and protects our security.

It is a choice between no Senate budget versus a realistic House budget. It is a choice between food stamps or paychecks. It is a choice between more government versus more private sector. It is a choice between Solyndra versus Keystone. It is a choice between fake energy versus real energy, a choice between expensive gasoline versus abundant energy. It is a choice between tax increases

versus tax reform. It is a choice between more poverty or more jobs. It is a choice between hiring more IRS agents and more UPA regulators, but having fewer troops and less security versus more private sector jobs and greater national security.

For example, for the cost of a typical EPA bureaucrat, we can pay and equip two enlisted persons in our military. It is a choice between more million dollar vacations and spring break trips for our first family or more vacations for American workers. It is a choice between more wars against stay-at-home moms versus better job opportunities and bigger paychecks for spouses that work outside the home.

It is a choice between more fast and furious guns for drug lords or more protection for Americans' Second Amendment rights. It is a choice between more spending of debt or a Balanced Budget Amendment. It is a choice between more spending on GSA bureaucrat parties versus more economic certainty and opportunities for middle class Americans. It is a choice between more taxes on job creators versus more jobs from those same job creators.

It is a choice between more unemployment versus more employment. In summary, it is a choice between more debt, doubt and decline for future generations versus restoration of American promise, prosperity and security for our children and grandchildren.

In this regard, I have a question for Mr. Rector. What is the single biggest determinant of poverty among families? I think you have talked about it, but what is the single biggest determinant?

Mr. RECTOR. The single strongest determinant of child poverty is the absence of an employed father from the home, and basically as we have seen the non-marital birthrate rise from 7 percent to 42 percent. That has caused a massive rate of poverty as well as need for assistance. And it is just amazing that in any academic setting, every liberal and conservative in the room would agree about this, but once you come out in public, "Oh well, we are not going to talk about this," Senator Moynihan talked about this almost 40 years ago. And this is the key factor. This is the key cause of poverty, and it leads to all sorts of problems for those kids. And if I were to say there was one thing that the TANF reform failed in 1996 was, the goal of that reform was to at least hold the line and not allow further erosion of the family, and that did not happen, it just got worse.

Mr. FLORES. Let me ask you this. Does anything that has been proposed improve the outcome of that single biggest determinant?

Mr. RECTOR. I think that we really have made very few efforts in this. But what I would say is recognizing that if the research shows that these single mothers who are predominantly very low educated, the least educated women on our society, are not hostile to marriage. In fact, they idealize it. They believe it is a wonderful thing, the way you and I might think about a trip to Paris, okay. And they are very serious about being moms. They do not want a baby to have something to play with. They want to be a successful mom. The first and foremost thing we could do to help those mothers is, before they have children, and these are adult women, these are not teenagers, but to say to them from a very early age, "You want to have children. You do not want your children to be poor."

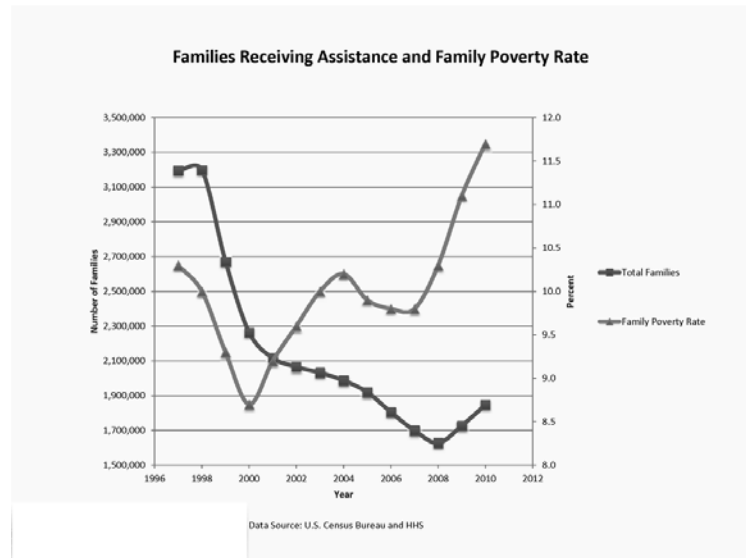
Do you understand that the number one factor in reducing poverty among children is to be married?" Because no one tells them that.

Mr. FLORES. Mr. Chairman, I yield back.

Chairman RYAN. Ms. Moore.

Ms. MOORE. Thank you so much, Mr. Chairman. It is so hard to prepare good, copious talking points because I am too busy listening to what people say, and I have to respond to it.

First of all, I want to associate myself with the comments of the Chairman early on when he said, "Let's put aside the outrageous rhetoric." I agree with that. Let's start out with the rhetoric about the wildly successful TANF program. By the way, hello, Mr. Greenstein, hello, Ron Haskins, these are good friends of mine. We have known each other since welfare was ended. Can you put this chart up? The first one I want is just the child poverty rates and the loss of benefits.



This is a real straightforward chart that shows that as benefits have gone down, child poverty has gone up. You do not have to graduate from the Wharton School of Economics to understand this chart. And rather than adopt my good friend Joe Wilson from South Carolina's rhetoric, I will just invite you to look at that chart.

I am so glad that in the past week, I have watched my favorite reality program, these news programs, and our candidates, and the candidate for president has talked about how being a stay-at-home mom is work. I am glad that we realize that taking care of children is work. I have three children, and trust me, it was work, they are all grown, they are still work.

And so here we are hearing about how women who receive TANF are not working. You cannot have it both ways. And if they must go out in the workforce, and parenting is especially hard if your maid does not show up, or your nanny does not show up on a particular day. And it is really hard when you are the nanny, and you

are the maid for somebody else's kids, and if you do not show up for work, you get sanctioned under TANF. Not only do you get sanctioned under TANF, but you are deemed to be lazy.

So that is the first myth that I want to put up. And you can also put up the second chart.

The second wild, outrageous rhetoric I would like to put aside is I am sorry, this methodology that we have from you sir, Mr. Rector. I will be 61 tomorrow, and I did have inferior education all my life, coming from the ghetto and all that, but I did go to college under one of the welfare programs, Pell grants. And I turned in a paper where you just sort of look together all kinds of numbers, benefits that are given on a community-base level, say AIDS stuff, or community development block grants, stuff that was not given to individuals, looked them all together and then claimed that you had given \$13,000, but I could not keep up with these growing numbers that you had that were giving to all these people. And they gave me my paper back. They told me, "No, Gwendolyn, you cannot do that, use that kind of methodology."

So I would venture to risk, knowing that you are a genius, that I reject your methodology in determining that poor people are indeed receiving all these benefits. You just cannot deem some 86-year-old woman that is laying up the ICU spending thousands of dollars a day in the ICU and deem that income to a 2-year-old and say that they are not in poverty. I guess I want Mr. Greenstein to really respond to this.

Mr. GREENSTEIN. Well, I very much agree with that. As Mr. Rector acknowledged, half or more of all the dollars in his chart is health care. That is not money that goes to a family to spend, it is money that goes to hospitals, doctors, labs, nursing homes.

Ms. MOORE. It goes to elderly.

Mr. GREENSTEIN. Two-thirds of all Medicaid goes to elderly. I also agree with you that it is pretty difficult to take programs like the Community Development Block Grant, some of which goes to developers.

Ms. MOORE. Balance the budget.

Mr. GREENSTEIN. And to act as though the CDBG dollars are the equivalent of purchasing power for low-income people. But the biggest issue regards health care, and it is consistent with what I said earlier, what I think Congressman Van Hollen said in his remarks. There are specific, particular issues with health care, and we need to look at them somewhat separately.

Ms. MOORE. Claiming my time, sir. I was so happy to hear Mr. Chairman indulge me, and I was so happy to hear that women are revered in this campaign and in this budget. I just want to point out that two-thirds of the SNAP benefits and two-thirds of the Medicaid benefits go to women, and if any of you guys know a man who wants to marry me so that I do not need Medicare, bring him on. I mean, I am single, I am open.

Chairman RYAN. Gwen, we've got some mutual friends in Milwaukee, we'll talk later.

Ms. MOORE. Okay, I am serious.

Chairman RYAN. Mr. Rokita.

Mr. ROKITA. Thank you, Mr. Chairman, I wanted to give Mr. Rector some time to respond, not to the marriage proposal, but to the other things that were said.

Mr. RECTOR. Well, I think that they are all interesting and valid points. As I laid out, when you look at this total expenditure, about half of it is medical care. I made that very clear. About 10 percent of it is what I called enabling functions. Now that is money, it is about \$100 billion a year we are spending on behalf of the poor. We are putting that money out the door, for some analysis, you want to take that off the table, for some analysis you are trying to describe the resources that are going in, it is kind of important. But 40 percent of this is cash, food and housing, and the simple fact is that, just in cash, food and housing alone, we are spending twice the amount of money needed to raise every single person out of poverty in the United States. Even if you took all the enabling programs off the table, took all the Medicaid expenditures for people in nursing homes, take that off the table, you still have enough money left over, if you converted this into cash, to take every family in the United States to 200 percent of the poverty level, \$44,000 a year: no Head Start, no job training, no nursing home care, \$44,000 a year. It is an enormous amount of money, and no one knows where this money goes.

Mr. ROKITA. Let me go into that. Thank you, Mr. Rector. That was one of the questions that I had for you. You ask and rightfully so, for a need for an honest counting. Is there a specific proposal out there that you endorse? A system or process or procedure that would get us down this road to accomplish your request?

Mr. RECTOR. I think you actually have to change the way that the Census works. The Census has undercounted income dramatically since 1950. It undercounts all types of income. The only thing it counts accurately is earnings. You know why it counts earnings accurately? Because it fixes the numbers. It adjusts them behind the scenes so they match up. Everything else is substantially undercounted, and then, for the most part, all the non-cash assistance, which is now the bulk of assistance here, is just off the table. So what you have here is you have close to \$1 trillion in spending. And when the Census goes to count resources available to the poor in the most normal numbers, they count 4 percent of that. And then people come back and say, "Oh my gosh, the poor people have no resources." They do not have any resources because it was all hidden. It is all not counted. Again, the game here is you spend, then we in social science do not count it.

Mr. ROKITA. Thank you. I understood that from your testimony, I just wanted you to get as specific as possible in the procedure.

Mr. RECTOR. I think that you need, first of all, to ensure that all things about resources of the poor have to include all the resources including the non-cash, do not talk about cash-only. Secondly, I think you need a completely improve the Census system that begins to use non-survey data, looks at tax records and things like that, looks at welfare receipt and things like that, gets to be accurate. The Census is missing \$2 trillion in income each year. That is more than the Gross National Product of England, I believe. It is very inaccurate.

Mr. ROKITA. Thank you. Mr. Mulligan, do you have a response to that, anything to add to my question about how do you get to an honest accounting, from a procedural perspective? If you do not, that is fine.

Mr. MULLIGAN. The account area is really beyond my expertise.

Mr. ROKITA. Thank you. Mr. Haskins, same question.

Mr. HASKINS. Yes. I do not think the accounts are that bad the way they are now. The official Census Bureau measure is hopelessly flawed. The Census Bureau has a new measure they have been working on for a long time. It also has flaws, but it is much better, because it counts all the resources. It does count the food stamps and so forth. And it may undercount them some, Robert is right about that, but a guy named Burkhouer, Professor Burkhouer at Cornell is able to include all those government benefits, including healthcare and apply it to the income distribution and show that, unlike what you are likely to read in the New York Times, that the income all five quintiles since 1979 has increased. And it has increased substantially because of government benefits, especially at the bottom.

So government is already doing a tremendous amount, and I think we could reduce what government does and still, not equalize, but bring the bottom up a little.

Mr. ROKITA. Thank you. Mr. Greenstein, same question. Did you have anything to add?

Mr. GREENSTEIN. Yes. We have a CBO series. It currently goes through 2007; it adjusts, and it counts these other benefits. And I want to note that the figures I have presented in my testimony today give a full accounting. How do I do that? Like in my figures on 650,000 more kids below half the poverty line? I count non-cash benefits, not health care, I count the other non-cash benefits and Robert's correct that the Census undercounts. The Urban Institute, in what is called the trim model, fully adjusts. We adjusted using the trim model. We added in all of the additional benefits to get to the full amount that goes out the door and is shown in the federal budget, and it was after we counted non-cash benefits and fully adjusted that we find an increase between 1995 and 2005 of 650,000 kids below half the poverty line. There are ways that are available to analysts right, left or center to adjust.

Mr. ROKITA. Thank you. My time has expired. I thank all the witnesses.

Chairman RYAN. Mr. Ryan.

Mr. RYAN OF OHIO. Thank you, Mr. Chairman. This has been a pretty interesting debate and discussion, so thank you for all the various viewpoints here. I think part of this, too, I think we need to look at the issue of poverty in context. And I do not think it even breaks down to some of these specific programs that we are talking about. And I agree that obviously the family is the number one indicator, and not just single-parent homes. I come from a single-parent home, but there were grandparents and family members that are around, so there are alternative ways to try to deal with those situations.

But the issue of context, and I think part of it is our education system. I think this drive to say that it is only about math and science, and it is not about the other skills that you actually need

to live a full life in the United States of America are not being addressed, the social and emotional skills and having a level of emotional intelligence. It seems to me, it does not seem what job you end up at, it is about 10 percent of knowledge, of actual content, and the other 90 percent is how you show up. You are on time. You know how to deal with other people. You know how to connect to other people.

And I think that this test-driven mentality that we have in the country has been a disservice to most of us, including and especially these young kids who are living in poverty, because those first set of skills that they need, and this is a bit off-message for what this debate is supposed to be about, those essential skills that they need are not being taught to them in the schools. And they come from broken homes. But we are not talking about managing poverty. I think everybody here is about ending it and figuring out a way to end it.

Part of the discussion too saying we want to move people from tax-eaters to taxpayers is part of this, but that does not reflect the fact of the matter that 50 percent of this is Medicaid, and, while it may not be a cut in the definition of the chairman, it certainly is a cut if health care costs continue to rise and those costs are going to be pushed off onto somebody. And those people are in Ohio and Wisconsin and Maryland and Florida that end up in a nursing home. That is who uses Medicaid in Ohio. Those are middle class people maybe making \$40,000 a year, and they cannot afford to send someone to a nursing home, but for the Medicaid program.

It is about the issue of violence in our society and in those neighborhoods that those kids come from and beefing up cops programs, so that we have enough cops on the beat, because the tax base has been eviscerated in some of these communities. You cannot learn if you live in a violent, abusive neighborhood. Period, dot, the brain science is in. You cannot learn. Your medulla destroys your brain, and your prefrontal cortex does not work.

So we have got to provide safe environments in our schools and in our neighborhoods. And we have got to invest in after-school programs, so these kids who do not have a father, who live in violent neighborhoods, have a place to go, so they can learn the skills of teamwork and problem-solving and all these things that we want to teach.

So I think this whole thing has to be taken into context. And I would argue, as well as probably most people on our side of the aisle, that the Affordable Care Act helped address a lot of these problems. I mean, you talked about disincentives to go to work, well the Affordable Care Act incentivized work because you would be able to go to work and get health care. So there was not this choice for the single mom to say I have to quit my job so I can get on Medicaid and stay home with my kid and go on the dole. Nobody wants to do that, and the Affordable Care Act incentivized that. It also provided incentives so that we can actually deal with people who are costing us a lot of money, with the medical home and the accountable care organizations, so that we have those wrap-around services that will drive health care costs down.

At Summa Healthcare System in Akron, Ohio, they are already saving \$8 million, \$9 million, 10\$ million a year by making sure

that people do not end up in the emergency room, they end up getting the preventative medicine that they need. And I think the Affordable Care Act has done a good a good job, and will continue to do a good job.

Lastly, you talk about having to go and check in so you do not have an underground economy job, you got to go and check in at Department of Job and Family Services. Well, there are cuts in almost all the states now in programs like that, they are downsizing and there is more people trying to access, so we have got to say if we want to end poverty, we maybe have to make these investments into the workforce that is going to have to manage these programs.

And then lastly, I really do wish a lot of my friends on the other side were as concerned about fraud in the tax system as they were about fraud among poor people in our society. And Mr. Flores mentioned it. The president is trying to beef up the Internal Revenue Service, so that we can actually go after these folks, and there is not support on the other side. So it seems to me we are having a whole hearing on fraud from our friends on the welfare state, but when we talk about fraud in the IRS, there is no hearings or beefing up the IRS agents.

Chairman RYAN. Thank you. Mr. Huelskamp.

Mr. HUELSKAMP. Thank you, Mr. Chairman. I appreciate the opportunity to ask questions from our experts here today. I come from the state of Kansas, and actually last fall our state department that deals with these programs; I do not think it was a comprehensive review, anyway, but a pretty superficial initial start or review, and found at least in our small state, as much as \$30 million in fraud in many of these programs. And some of the typical cases of folks that are not who they say they are, 6,400 that were probably from out of state because of our generous welfare policies in Kansas, 312 folks possibly dead and still receiving benefits, somehow somebody was picking up that check, but that is just a small state. By my calculations, if every state undertook a similar review, they could save at least \$3 billion to \$4 billion annually, which is kind of what we are talking about in some of these farm bill discussions over on the Agriculture Committee as well.

My question is for the state of Kansas, or any other state, what particular incentives do we have in the system to actually ask our state partners to actually help root out the fraud and abuse that we hear over and over is occurring and occurring right in our state of Kansas. Mr. Rector, if you would like to start?

Mr. RECTOR. Unfortunately, not very much. Again, part of the reason that TANF reform was taken seriously was that the states had money on the table in TANF. A lot of these other programs, SSI, food stamps, they have very little money on the table, and therefore it is very difficult to get state legislators or governors to pay attention to them. They certainly do not have any incentive to put effort into, say, cleaning up food stamp fraud because they do not pay for it. And I think that is very important to understand, and if you are going to clean that fraud up, it would have to be done by the people who pay for it, which happen to be you right here.

Mr. HUELSKAMP. Yeah. Actually, I served in the state legislature, and actually the incentive is probably the other way around.

Mr. RECTOR. Yes.

Mr. HUELSKAMP. Actually, on the Medicaid program, the more the state spends, at least in our state of Kansas, the feds will put even more in. The debate over and over on the state floor is if we spend 40 cents, you will automatically get another 60 cents whether it is for fraud or otherwise. And, of course, we spend billions at the federal level trying to force fraud prevention units to work on the Medicaid and the Medicare side as well.

But specifically, we have a farm bill discussion hopefully coming up this year; we will hopefully make some real changes. But I want to ask each one of you, what could we do at the state level that would encourage our state partners, and they are a partner in these programs, we expect them to serve as partners and actually to find a way to root out fraud and abuse and actually help improve a program to get the funds, we spend billions, as they do a great job outlining, to get to the people that are in need. And I guess I'll start with Mr. Haskins, if you'd like.

Mr. HASKINS. Well, I think there is already considerable motivation for states. They pay for almost half of Medicaid. They pay for half of TANF. They pay for half of the child protection programs. So they could save considerable money, and they administer all these programs, and they pay at least half the administrative cost of the programs. So they already have money in the game. Now, true, it is correct that food stamps is the one that they would be least likely to be vigilant about.

Mr. HUELSKAMP. Food stamps though, that is within our jurisdiction on this farm bill that is coming up. So what can they do on food stamps? Are we just going to wait on Washington, or what can they do? So, quick question on that, just on the food stamps, that we are talking about here.

Mr. RECTOR. I think the key in food stamps is to turn it into a work activation grant, not a block grant, which is just we give you money and you do what you want, but a grant program that is designed to promote work and marriage, that requires states to have certain goals in terms of participation, it has some penalties and rewards if you do not and has some serious things like fraud reduction. That is what really has to be done. I mean, this program is basically a dinosaur. It has not changed for 40 years. It is the same old giveaway program it always was. I mean certainly it meets needs, I do not want to suggest that people are not getting this money and are not getting benefits from it, but in terms of promoting self-sufficiency and upward progress, it is not good at all, and we need to change it.

Mr. GREENSTEIN. Exactly the opposite is true. I think I know a little about this, I used to run the food stamp program for the federal government in 1979 and 1980. I was credited with cutting the error and fraud rate more than in half and was celebrated by an Inspector General who was one of those junkyard dogs Ronald Reagan promoted when he became president.

The food stamp program today has only a 3 percent overpayment rate, fraud is a part of that. That is one-fifth the rate in the internal revenue code. States do have incentives. They come from sev-

eral forms. States are required, as a condition of getting federal funding under food stamps, to do a very thorough; it is about eight to 12 hours per case investigation. There are 50,000 cases done nationally. There is a statistically valid sample for each state. If the state's error rate is high, they are required to take corrective action. The federal government can or on occasion does withhold the portion of the federal share of state administrative costs if they do not act. And we have gone, over several decades, from a program that had a 17 percent error rate when I first came in, to 3 percent today, and the 3 percent overpayment, 2 percent net of underpayments. There is more that can be done, but one should not think that everything is a failure. I think in terms of error and fraud reduction in food stamps, we have made great progress. We have further to go, but we have made very substantial progress.

Chairman RYAN. Thank you.

Mr. HUELSKAMP. Thank you, I appreciate that.

Chairman RYAN. Ms. Kaptur.

Ms. KAPTUR. Thank you. I want to thank Chairman Ryan and Ranking Member Van Hollen for holding a hearing this morning on something very important. I view feeding the hungry, as do the majority of people I represent, as both a moral as well as civil imperative. I have a problem with the Republican proposal, however, and I am glad for the hearing, because I frankly cannot support a budget that expands tax preferences for the most wealthy by nearly a trillion dollars, \$961 billion, while cutting the Supplemental Nutrition Assistance Program, our major food program, by \$122 billion. For me it fails on a moral level as well as a civil level.

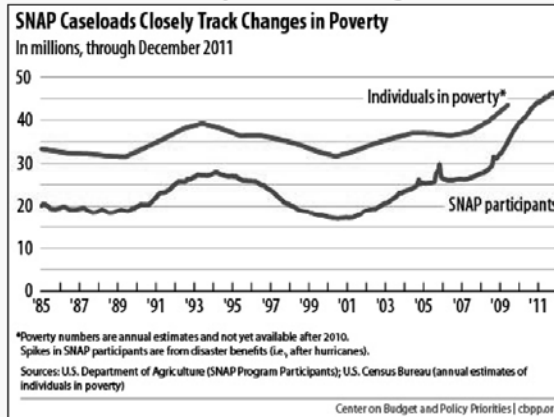
I am sorry Congressman Garrett is not here. He talked about the Constitution. Well, I think feeding the hungry is a constitutional imperative. We talk about forming a more perfect union, about assuring domestic tranquility, about promoting the general welfare and securing the blessings of life for our current population and future population, and it seems to me this is central to our Constitution.

The tax preferences that are in the proposed budget outweigh the food cuts by eight to one, eight times more benefit to the wealthy than what is proposed here in terms of the \$122 billion cut in Supplemental Nutrition Assistance. It is simply is a nonstarter for me. And we know that two-thirds of these are people in our country who are gravely struggling.

I can take you to a neighborhood in Toledo where we are installing community gardens and where women over the age of 85 go and pick every pepper that we raise in the summertime to the ground because of hunger needs. And there is not a single food bank in the region that I represent that is not strapped to the edge. So I think to propose cuts, \$122 billion is absolutely unconscionable.

Now, I asked the staff to put up this chart, because I was sitting here working on some numbers.

Supplemental Nutrition Assistance Program (SNAP) Caseloads Closely Track Changes in Poverty



HBC House Budget Committee Democrats

These are raw figures. They show the number of people in poverty in different years and decades and the number on SNAP. Well, when I sat here and figured out per million population, and if you go back to 1990 and you look at how many people were on SNAP when we had 248 million people in the United States, it was about 8 percent of the population was registered for our food programs. You know what it is today with population of 310 million? About 7 percent. And so, it has actually not gone up, and it has actually gone down as a percent of our people, despite everything that is happening.

So this chart needs another line, and that is to talk about the relationship to our population as a whole. So I think we are doing extraordinarily well as a country. And also, if you look at the red line at the top, you will see when Republicans were in power, Mr. Flores talked about jobs, more people went into poverty because jobs were outsourced. Jobs were not being created. Those who had wealth took it someplace else, and they did not invest here.

So you look at the Bush era after the late 1980s, early 1990s, and when Clinton became president, what happened? Poverty started to go down; it started to go down. And then what happened when Bush got in there? Back up again. In the early 2000s, and then we had the horrible crash in 2008 under Bush's watch. Look what happened. We are still trying to dig out of that.

I think that we have to be reasonable in putting these budgets together and do what our people would want us to do, and that is to take care of those, including many members of our military, who are eligible for food stamps because they are not paid enough, and for those who are working. Who can possibly work in a laundromat, a mother with children, at minimum wage, owning a clunker of a car, having to pay gas to get to work, pay the heat bill, live on \$1,300 a month, almost an impossibility in our country.

So, I wanted to ask Mr. Greenstein your thoughts on the SNAP program. Most of the money in SNAP, and I am a member of the Subcommittee on Agriculture, goes right into benefits. It is a very efficient program. Is not the program being run efficiently something that we should be proud of and not be cutting at a time of need in our country, when there are not enough jobs being created because so many of our so-called corporations decide to go abroad where there are no labor rights, there are no environmental standards and people live as bonded labor in so many of these countries. Is it not an efficient program, we should be proud of this program, maintain it and not cut it by \$122 billion?

Mr. GREENSTEIN. Yes, I think it is one of the most efficient and best-run programs we have. There has been a lot of discussion by the chairman, among others, of the big increases in SNAP costs in recent years. When you look at what happened, following the 1996 welfare law in an unintended side-effect, a lot of people that left welfare for work got cut off food stamps when they went to work for low wages. It was not intended. Ron Haskins was among those who testified that we should address that. You should not lose food stamps if you went to work for low wages. Congress, on a bipartisan basis, Clinton and particularly the Bush administrations made the program more accessible to the working poor. We went from about 70 percent of eligibles getting benefits in 1995 down to about 50 percent at the start of, chairman, your 10 year period. It is back up to 72 percent.

The three major reasons food stamp costs have grown are the downturn in the economy, the increase, which will expire under ARRA and the significant increase since 10 years ago in the percentage of eligibles that get benefits concentrated among the working poor. We went in the last 10 years from 43 percent of eligible low-income working families getting food stamps to 60 percent. I had in my testimony, it is somewhere in the slides, if you look at food stamp costs since 1995 as a share of GDP, they are way up now, but under the CBO forecast, by the end of the decade they come all the way back down and then go below the 1995 level as a share of GDP.

Ms. KAPTUR. May I just interrupt and say, Mr. Chairman, the cost of food has gone up so much. In Ohio, to buy two lamb chops, which I do not buy, \$10.62. Now, who can afford that in the supermarket? All right, so the cost of food was not included in these charts either.

Mr. Chairman, I just want to ask for the record if any of the panelists could submit for the record, how many people in the state of Ohio in each of the following categories would become increasingly food-insecure if the \$122 billion cut were adopted: children, seniors, the severely disabled, the unemployed and families who are working. Does anybody have those figures?

Chairman RYAN. I do not think they do. Time has expired. Ms. Wasserman Schultz.

Ms. WASSERMAN SCHULTZ. Thank you, Mr. Chairman. You know, it has been interesting to sit through this ironically-titled hearing, "Strengthening the Safety Net," when the Ryan budget does just the opposite, because it achieves most of its savings by pulling the safety net out from under the most vulnerable. With that preface,

Mr. Greenstein, could you help with some data? What percent of the Ryan budget cuts, in your analysis, come from programs that serve low-income Americans? And also, could you talk about your broader analysis of the impact that the Ryan budget has, in general, and what were your main findings?

Mr. GREENSTEIN. So there are \$5.3 trillion in expenditure reductions, not counting interest savings over the next 10 years. Our analysis, and it is conservative, the figure is probably too low, is that at least about 62 percent of that would come from low-income programs. The way we got that was for all the programs where there are specific figures, Medicaid, food stamps, and the like, including the specific figures, for the areas where there were not: non-defense discretionary and entitlement programs other than like Social Security, Medicare and so forth, for which there is not a specific number, we simply assumed that the percentage reduction in that part of the budget that you would have the same percentage reduction in the low-income component. If you take discretionary, since I do not think there are going to be those kind of reductions in veterans health or the FBI or things of that sort, the odds are that the low-income reductions would be bigger, but we did not assume that. And the figure ended up being 62 percent, or \$3.3 trillion of the \$5.3 trillion in budget cuts.

Ms. WASSERMAN SCHULTZ. And just more specifically about SNAP caseloads, because obviously during the Great Recession and its aftermath, SNAP caseloads grew, making sure that people were not food-deprived, that was incredibly important. But as the economy recovers, and we have had many more people who, in order to make ends meet, are dependent upon SNAP. Can you talk about what we can expect would happen to SNAP caseloads as the economy improves?

Mr. GREENSTEIN. So I have been following the SNAP program since 1972, and the caseloads go up in every recession a lot. In every recession there is a lot of commentary that they will never come back down after the economy recovers; and after every recession, they do come back down. And that is the CBO forecast and, I think, that of most analysts.

Over 90 percent of the funding in food stamps is right for benefits, and the remaining, a little short of 10 percent, is to make sure people are eligible, to make sure retailers are complying with the program, and they administer work requirements, which the program does have, and the employment and training program. It is hard to get much savings there. If you had to take \$133 billion out of the program, which the budget does, you have to cut benefits. You have to cut eligibility, benefits, or both. It is unclear which states would do, perhaps a combination, but there is little question that you would have some numbers of millions of people who would no longer be able to get food stamps, and for those who did, most likely they would get smaller amounts, which is a concern, given the evidence that people do run out of food before the end of the month.

The Institute of Medicine is currently conducting a study of whether the level of benefits in SNAP is adequate. I do not know where they will come up, but enough questions have been raised

in the research that they thought it warranted a study. I think the results will come out the end of the year.

Ms. WASSERMAN SCHULTZ. Having gone through an exercise myself on trying to subsist on what it would be like if I were on a food stamp budget, I can attest to it being extremely difficult, if not impossible.

Just lastly, as recently as 2008 and 2009 in my home state of Florida, nearly 350,000 families with children were living in poverty. Can you talk about the impact, in the time I have remaining, of what that would mean for those families if we changed the SNAP program, the food stamp program, from a safety net program into a block grant program?

Mr. GREENSTEIN. Well, the effect would be by far the most severe during economic downturns. The food stamp program automatically responds in recessions, block grants do not.

Ms. WASSERMAN SCHULTZ. And that is because a block grant, you are giving a finite amount of money. You are saying this is what you have. Do with it what you will.

Mr. GREENSTEIN. And under the TANF block grant, there is no adjustment even for inflation, and the total amount of federal money in the program is lower in nominal terms today than it was when the program started because of the elimination of the supplemental grants.

I do not know what the specifics would be in food stamps, but based on prior proposals maybe it would adjust for inflation, maybe it would not, but that does not necessarily take into account population growth. It certainly does not take into account downturns in the recession. And block grants do very badly in adjusting for changes in need across states. Not all state economies, poverty rates and so forth move at the same rate.

My particular concern is about the people both Ron Haskins and I have been talking about on this panel, at the very bottom. The people who have difficulty holding a job. The people who are worse off as a result of the welfare law, recognizing other people are better off.

In 1995, my distinct recollection is that when the Ways and Means Committee marked up the welfare law, Democrats on the committee said this is going to harm poor children and leading Republicans on the committee said we are maintaining food stamps as a floor. No children will be hungry. The fact that TANF is a block grant actually, in my view, makes it all the more important that food stamps retain its entitlement structure and be that floor under the poorest families.

Chairman RYAN. Thank you.

Ms. WASSERMAN SCHULTZ. Thank you very much.

Chairman RYAN. Thank you. In closing, I will make a couple points of clarification. There is a lot to talk about spending cuts. The budget we passed increases federal spending from \$3.6 trillion a year to about \$4.9 trillion a year over the 10-year period, instead of the \$5.8 trillion, which is what the president proposes. So we are talking about rates of increase here, not even talking about actual cuts.

With the respect to how to structure block grants to say, programs like SNAP, when your formula, as ours proposes, is eligible

population plus inflation, then if the eligible population increases because of a recession, then the formula reflects that. So you can measure for these things, account for these things in your block grant formula so long as you write your block grant formula appropriately, and that is what we are proposing. But Mr. Van Hollen, I want to yield to you. Do you have a UC you want to ask for?

Mr. VAN HOLLEN. I do. Thank you, Mr. Chairman. First of all, I want to thank all the witnesses for their testimony. I do, Mr. Chairman, think going forward, we should keep in mind this distinction between means-tested health programs and other programs. I think as we have seen, the overwhelming amount of funds are in the health programs, and the growth is in those programs, and I do not think that the Welfare Reform Act work incentives apply many lessons to there, as we have heard today.

I would ask you, Mr. Chairman, for unanimous consent to submit for the record a report from the Saint Camillus Food Pantry in Silver Spring, Maryland, a food pantry in my community that serves over 6,000 families, on the issue of food security.

[The information follows:]



St. Camillus Food Pantry

Pastor/Executive Director: Fr. Michael Johnson, ofm

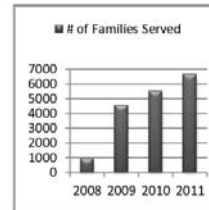
Coordinator: Joan Conway, Ph.D., R.D.
st.camillusfoodpantry@gmail.com

Phone: 301-434-8400; **Fax:** 301-434-8041

Silver Spring: St. Camillus Catholic Church
 1600 St. Camillus Drive
 Silver Spring, MD 20903
 Friday 3–5 PM; Saturday 10–12noon

Langley Park: 8102 Tahona Drive
 Silver Spring, MD 20903
 Saturday 10–12 noon

Pre-registration required: 1408 Merrimac Dr. Tuesday morning, 9–12n.



St. Camillus is a large multicultural Franciscan parish serving people of the metro Washington, D.C. area in Montgomery and Prince Georges Counties in Maryland. The specific mission of the Food Pantries is

- 1) to provide food to families in need;
- 2) to increase *food security* in our families (The USDA definition of *food security* is access to safe, adequate, nutritious, easy-to-use, and culturally-appropriate food at all times);
- 3) to provide basic nutrition education;
- 4) to provide information about federal, state, and community resources relating to schools for children, food, jobs, adult education, and housing; and
- 5) to treat each person with dignity and respect based on our Christian and Franciscan values.

The primary programs of the Food Pantries are emergency food assistance and education to improve self-sustainability. Depending solely on food availability, people are served without regard to race, ethnicity, or religion.

The current organization of the pantry has existed since 2002. In the years from 2002-2008 we served a total of ~ 2,000 families: fewer than 350 families per year. In 2008, due to an increase in community need, we opened the second site of the pantry and in that year we provided emergency food supplies to 961 families (see figure above). The number of families served by our pantries has increased dramatically each year as the economic downturn has taken hold. In 2010, we served 5,600 families, with an additional 20% increase to 6,629 families in 2011. As part of this dramatic increase we have seen a 70% increase in the number of families with children under 5 years of age and a 25% increase in the number of senior citizens. Winter months are especially difficult for our families and this past winter there was a 60% increase in the number of families over that of the winter of 2011.

To meet these demands we typically purchase, transport, shelf, and distribute more than 4,000 pounds of food per week. Thanks to more than \$100,000 from the generosity of our private donors, grants from

St. Camillus Catholic Church is a ministry staffed by the Franciscans of the Holy Name Province

the Montgomery County Council, the Neighbors in Need Fund of the Community Foundation of the National Capital Region, and the Order of Malta-Federal Association, plus food purchased from the Capital Area Food Bank and received from USDA's Emergency Assistance Food Program (TEFAP) we have not had to turn many families away, but at times we have had to limit the amount of food each family receives. We continue to rely on God's providential love for the poor.

In-kind donations of more than \$150,000 worth of food are received from ongoing and special food collections and from gifts of generous merchants and farmers. Bread is received weekly from local branches of Safeway and Panera, the Upper Crust Bakery, and the Stone Hearth Bakery. Fresh fruits and vegetable donations are received from the Capital Area Food Bank, the Calvert Farm, the Pleitez Farm, the USDA Beltsville Agricultural Research Center Student Demonstration Garden, and the Cedar Ridge Church. These gifts of fresh produce increase the nutrition available to our families and assist in meeting their needs for specific vitamins and minerals as well as aiding in the prevention of obesity and diabetes.

Our current guidelines suggest that a **family can be served only once per month**. The quantities we are able to offer **provide food for only three days for a family of four**. *Each family is provided with basic foods including: rice, beans, vegetable oil, flour, sugar, cereal or oatmeal, soup, canned vegetables, canned tomatoes, canned fruit, peanut butter and jelly, pasta, pasta sauce, macaroni and cheese, and tuna or sardines.* The particular blend of foodstuffs was designed to be nutritious, safe, and culturally appropriate for our families with children. Thanks to the grant from the Order of Malta-Federal Association, we are also able to provide baby formula and age-appropriate food for children under 2 years of age.

Many of our families are the working poor (\$12,000–\$20,000/year) who do not have sufficient income to meet their most basic needs. Many have been out of work due to the economic downturn in the cleaning, housing, and landscaping industries. Families are counseled concerning federal, state, and local programs such as WIC, SNAP (formerly known as Food Stamps), Manna of Montgomery County, and the Archdiocese of Washington DC, Catholic Charities program of SHARE (Self Help and Resource Exchange). Our most recent volunteer outreach effort is to mentor these families in the process of application for SNAP benefits. Participation in the SNAP program improves their self-sustainability, provides continuous access to food, and increases the amount of nutritious food they can provide for their growing children.

Without the support of the more than 150 volunteers ranging in age from 2 to 85 years the work of the pantry could not be accomplished. These volunteers are drawn from the Catholic parishes of St. Camillus, St. John the Baptist (Silver Spring), St. Elizabeth (Rockville), Our Lady of Mercy (Potomac), Blessed Sacrament (Chevy Chase), and Holy Redeemer (Kensington), from the Tzu Chi Charitable Organization (Metro DC), from the Adelphi Friends Meeting (Adelphi), and employees of the Food and Drug Administration (White Oak) and the USDA, Beltsville Agriculture Research Center (Beltsville). Many of them volunteer specific professional expertise including: grant writing and management, accounting, social work, nutrition education, and counseling. These volunteers are involved in all aspects of the pantry work.

If you know of someone who needs food, please refer them to us.

St. Camillus Catholic Church is a ministry staffed by the Franciscans of the Holy Name Province

Chairman RYAN. Without objection. Gentlemen, thank you very much for spending your morning and into the afternoon with us. We appreciate your time traveling out from Chicago, Dr. Mulligan and everyone else. This hearing is adjourned.

[Whereupon, at 12:44 p.m., the Committee was adjourned.]